Abano Healthcare Group Limited

NOTICE OF ANNUAL MEETING

The 2009 Annual Meeting of shareholders of Abano Healthcare Group Limited will be held at Pakuranga Hunt Room, Ellerslie Event Centre, 8-100 Ascot Avenue, Ellerslie, Auckland, on 8 October 2009, commencing at 11.30am

24 SEPTEMBER 2009

abano healthcare group limited

CONTENTS

IMPORTANT INFORMATION

This document forms part of an information pack which includes:

- a letter from the Chairman of Abano Healthcare Group Limited
- a notice of meeting including the resolutions that will be put to shareholders at the annual meeting
- an Explanatory Memorandum summarising and explaining the proposed transactions to which the special business to be conducted at the annual meeting relates
- a voting/proxy form to enable shareholders to vote on the resolutions by attending the meeting or by appointing a proxy to vote on their behalf at the meeting
- an independent report on the proposed transactions prepared by KordaMentha

Also enclosed is a separate document setting out the terms of Abano Healthcare Group Limited's newly adopted Dividend Reinvestment Plan. Please see that document for further information regarding that plan.

These are important documents and requires your immediate attention. Please read them carefully.

If you are in doubt as to anything contained in this information pack, you should consult a person authorised to undertake trading activities by NZX or a financial or legal adviser.

abano healthcare group limited

LEVEL 16, WEST PLAZA BUILDING
3-7 ALBERT STREET, AUCKLAND CITY
PO BOX 106-514, AUCKLAND 1143
NEW ZEALAND
PH: 64 9 300 1410
FAX: 64 9 300 1419
EMAIL: enquiries@abanohealthcare.co.nz
www.abanohealthcare.co.nz

24 September 2009

Dear Shareholders

SALE OF BAY AUDIOLOGY LIMITED

As we advised in our letter of 28 August 2009, your Board recently announced the signing of an agreement to sell Abano's 70 percent shareholding in Bay Audiology Limited, the entity through which Abano owns or has an interest in 69 audiology clinics throughout New Zealand, to National Hearing Care (New Zealand) Limited.

Interests associated with Peter Hutson hold the balance of 30 percent of the shares in Bay Audiology and they have also agreed to sell their holding to National Hearing Care. The total purchase price will be $157.8 million (subject to adjustments).

The background to, and rationale for, this proposed transaction is described in the following sections of this letter.

The transaction requires shareholder approval. This will be sought at the Company's annual meeting which will be held at the Pakuranga Hunt Room, Ellerslie Event Centre, 8-100 Ascot Avenue, Ellerslie in Auckland on the 8th of October 2009 starting at 11.30am. A formal notice of that meeting accompanies this letter, along with a report on the transaction from independent experts KordaMentha.

The Board believes that the transaction will be of significant benefit to all shareholders and therefore recommends that you vote in favour of the transaction at the annual meeting.

There will be three resolutions relating to the transaction, each of which requires your approval. One of these resolutions requires approval by 75 percent of votes cast at the meeting (with the other two requiring the approval of a bare majority of votes cast at the meeting). Accordingly, we recommend that you, or your nominated proxy, attend the meeting and vote on the resolutions. If you wish you may appoint the Chairman of the meeting as your proxy to vote on your behalf.

If the resolutions are not passed, Abano will retain its ownership interest in Bay Audiology and the benefits of the sale, including the proposed capital return to shareholders of $53 million, will not accrue to shareholders.

THE RATIONALE FOR THE TRANSACTION

National Hearing Care is a company associated with private equity fund manager, Crescent Capital Partners. A wholly owned subsidiary of National Hearing Care holds approximately 19.52 percent of the shares in Abano. In late 2007 / early 2008, Crescent Capital was unsuccessful in its takeover offer for the company made at $5.20 per share (totalling approximately $121 million). The Abano Board recommended at that time, that shareholders reject Crescent Capital's takeover offer, as it was the Board's view that the offer undervalued Abano, especially our New Zealand audiology operations. We also believed the offer failed to recognise the potential for growth in audiology in Australia and South East Asia and the offer simply did not value Abano's existing growth businesses (being dental and radiology), or the stable annuity income businesses in pathology and rehabilitation.

With the benefit of hindsight, we believe that our advice to shareholders has been endorsed by the company's profit and share price performance since that time, and by the National Hearing Care transaction which relates just to our New Zealand audiology business.

National Hearing Care owns and operates 82 audiology clinics in Australia and 11 in New Zealand. It is looking to the acquisition of Bay Audiology to give it a comprehensive trans-Tasman presence that will allow it to compete more effectively in both markets.

Under the agreement which has now been reached, Abano's New Zealand audiology business is valued at a multiple of over 2.8x revenue. This is a significant multiple in the world wide audiology industry. The price to be paid by NHC is within the KordaMentha valuation range. The Board is therefore satisfied that this price, as well as the other features of the transaction, captures, and delivers in cash today, a fair proportion of the potential future benefits that shareholders would otherwise enjoy from Abano's New Zealand audiology business. The Board's assessment also reflects that Abano will retain ownership of its audiology businesses in Australia and South East Asia as well as its dental, radiology, brain injury rehabilitation, orthotics and pathology businesses.

Abano is to receive 72 percent of the proceeds from the sale of Bay Audiology (for its 70 percent stake) with interests associated with Peter Hutson receiving 28 percent of the proceeds (for their 30 percent stake).

As an additional benefit, Abano, and interests associated with Peter Hutson, have the option to reinvest up to $30 million of the sale proceeds in National Hearing Care's resulting combined audiology businesses in New Zealand and Australia. At this stage, no decision has been taken as to whether or not this option should be exercised. If it is exercised, the investment will be held as to 50 percent by Abano and as to 50 percent by Peter Hutson's interests. Although this would represent a relatively minor interest in these combined businesses (approximately 15 to 18 percent in total) it will allow Abano shareholders to participate in the financial benefits of this new trans-Tasman organisation while still retaining our Australian audiology growth business, Bay Audio.

While Abano would have the same rights and returns as other investors in this merged group, we would not have a role in the management or strategic development of its operations given our competing interests in audiology, particularly in Australia.

The New Zealand audiology business has been a large part of Abano's growth and profitability over recent years with Bay Audiology growing from 28 to 64 clinics nationwide since October 2005 and revenues increasing by approximately 30 percent on average per annum over the same period. The market environment has changed over this period and has become increasingly competitive in New Zealand as new and existing providers compete for customers from our small population base. In addition, our dental and radiology businesses have experienced faster growth in revenues and profits in the last twelve months. Indeed, our dental sector revenues now exceed audiology's and the combined dental and diagnostic sectors now contribute almost the same level of EBITDA and are forecast to exceed audiology's contributions going forward.

Abano's international audiology business is conducted through Bay International Limited, which is currently 85 percent owned by Bay Audiology. The shares in Bay International are not being sold to National Hearing Care. This will enable Abano to continue its overseas expansion with particular focus on Australia and selected Asian markets. Currently, interests associated with Peter Hutson own 15 percent of the shares in Bay International directly. As part of the overall transaction, these interests will purchase further shares in Bay International. As a result, the shares in Bay International will be held 50 percent by Abano and 50 percent by interests associated with Peter Hutson. In turn, Peter will commit to drive Bay International's offshore strategy. As part of this, Bay International will be recapitalised, with interests associated with Peter Hutson investing $11 million into Bay International.

Our decision to recommend this business for sale to shareholders reflects the Group's intention to focus the audiology business on other markets which have substantially larger populations and offer exciting growth opportunities. Other key factors include:

- Bay Audiology is rapidly reaching a position where continued growth at the rate achieved in recent years is not sustainable.
- The value of the transaction is attractive and will generate an estimated capital profit of $70 million on our original investment in Bay Audiology as made in 2005.
- The net cash proceeds to Abano are estimated at $118 million which will allow us to make a capital return to shareholders of approximately $53 million and invest the balance in recapitalising our dental business in Australia and in retiring debt. This will provide us with a strong balance sheet moving forward.
- The ability to retain our audiology operations in Australia and South East Asia and to retain our proven partnership with Peter Hutson, whose associated interests will pay $11 million to Abano and increase their shareholding in Bay International to 50%, is very attractive.
- We believe the opportunities in dental in New Zealand and Australia and radiology in New Zealand will offer substantial continued growth opportunities for shareholders for years to come.

In summary, the sale will allow Abano shareholders to realise a substantial capital gain while retaining a strong and profitable growth business with a sound balance sheet to realise existing and significant new growth opportunities.

CAPITAL RETURN AND SPECIAL DIVIDEND

After significantly reducing New Zealand debt, and allowing for future growth, it is the Board's intention to return a portion of proceeds of sale to shareholders. A total of approximately $53 million is intended to be returned to shareholders via a combination of a voluntary pro rata off market share buyback offer and cancellation, and a special one off dividend. The Board has also introduced a Dividend Reinvestment Plan that will allow shareholders the flexibility to take fully paid shares in lieu of dividends (including the special early interim dividend). The Board is satisfied that, following the buyback and special dividend, Abano will retain the capacity and ability to pursue our growth strategy.

The share buyback and cancellation will be offered to shareholders on a pro rata basis (with an ability for shareholders to elect to sell more shares if there is not full participation in the pro rata offer).

GOING FORWARD

Significant future growth opportunities continue to exist for our audiology strategy in Australia and Asia, in our dental strategy in New Zealand and in Australia as well as growing our radiology business in New Zealand. As opportunities present themselves, we will consider new prospects in other healthcare sectors.

BOARD'S RECOMMENDATION

Given that Peter Hutson's associated interests are one of the vendors of the shares in Bay Audiology, Peter has not participated in the Board's decision to recommend this transaction to shareholders. However, Peter's view on the transaction speaks for itself given his associated shareholders' decision to join with Abano in selling their 30 percent holding to National Hearing Care, and to reinvest $11 million of their proceeds into Bay International.

The remainder of the Board unanimously recommend the transaction to shareholders. We believe that approval of the sale will be of benefit to all of you and accordingly we recommend that you vote, or your proxy vote, in favour of the transaction at the annual meeting to be held on 8 October 2009.

If you are unable to attend the meeting, you may wish to appoint the Chairman as your proxy, to vote on your behalf. As approval of the transaction will require 75 percent of votes cast at the meeting, we encourage you to vote or appoint a proxy to vote at the meeting on your behalf.

Yours faithfully

Alison Paterson

Alison Paterson
Chairman
Abano Healthcare Group Limited

NOTICE OF MEETING

Notice is hereby given that the 2009 Annual Meeting of Abano Healthcare Group Limited ("the **Company**") shareholders will be held at Pakuranga Hunt Room, Ellerslie Event Centre, 8-100 Ascot Avenue, Ellerslie, Auckland on 8 October 2009, commencing at 11.30am.

AGENDA

1. **CHAIRMAN AND MANAGING DIRECTOR PRESENTATIONS**

2. **ORDINARY BUSINESS**

2.1 To consider and, if thought fit, pass the following ordinary resolutions:

(a) **RESOLUTION 1**
To record the reappointment of PricewaterhouseCoopers as auditors of the Company and to authorise the directors to fix the auditors' remuneration.

(b) **RESOLUTION 2**
That Mrs Alison Paterson, who retires by rotation and is eligible for re-election, be re-elected as a director of the Company.

(c) **RESOLUTION 3**
That Mrs Susan Paterson, who retires by rotation and is eligible for re-election, be re-elected as a director of the Company.

(d) **RESOLUTION 4**
That Mr Danny Chan, who was appointed a director by the Board during the year to fill a casual vacancy, be elected as a director of the Company.

Further information relating to these resolutions is set out in part 1 of the Explanatory Memorandum to this notice of meeting.

3. **SPECIAL BUSINESS**

3.1 To consider and, if thought fit, pass the following resolutions 5 - 7, all of which must be passed in order for the sale of the Company's shares in Bay Audiology to proceed:

(a) **RESOLUTION 5 (AS AN ORDINARY RESOLUTION)**
That in accordance with the requirements of the Company's constitution and the NZSX Listing Rules[1], shareholders approve, and the Board be authorised to implement, individually and collectively, the transactions described in the accompanying Explanatory Memorandum (the "**proposed transactions**") under which:

(i) the Company agrees to sell 70 percent of the shares in Bay Audiology Limited ("**Bay Audiology**"), excluding the Company's interests in Bay International Limited, to National Hearing Care (New Zealand) Limited, a wholly owned subsidiary of NHC Group Pty Limited, on the terms described in the accompanying materials;

(ii) interests associated with Mr Peter Hutson (the "**Hutson Interests**") increase their ownership of Bay International Limited to 50 percent; and

(iii) the Company, should the Board elect, (together with the Hutson Interests) invest up to the sum of $30 million in NHC Group Pty Limited, representing a reinvestment in the merged National Hearing Care/ Bay Audiology business,

together with all agreements and arrangements desirable or necessary in connection with the proposed transactions (including non-material variations to the proposed transactions).

1. The transactions require approval pursuant to NZSX Listing Rule 9.2.1 as they constitute a "Material Transaction" with "Related Parties".

(b) **RESOLUTION 6 (AS AN ORDINARY RESOLUTION)**

That to facilitate the provision of security to the Company and the Hutson Interests for the proposed short term advance to be made by them to National Hearing Care (New Zealand) Limited, in accordance with rule 7(c) of the Takeovers Code, shareholders approve the acquisition of up to 4,534,998 (being up to 19.52 percent) of the shares in the Company by ABA Nominee Limited (the "**Nominee Company**") from Hearing Holdings Limited (a wholly owned subsidiary of National Hearing Care (New Zealand) Limited), as a result of which the Nominee Company, and its associates, the Hutson Interests and the Company, will hold or control an increased percentage of the voting rights in the Company, up to a maximum of 39.21 percent.

(c) **RESOLUTION 7 (AS A SPECIAL RESOLUTION)**

That the proposed transactions are approved as a "major transaction" in accordance with section 129 of the Companies Act 1993 and are approved pursuant to NZSX Listing Rule 9.1.1.

Further information relating to resolutions 5 - 7 is set out in part 2 of the Explanatory Memorandum to this notice of meeting.

By Order of the Board of Directors

Richard Keys
Authorised Officer
Abano Healthcare Group Limited

NOTES

ENTITLEMENT TO VOTE

1. Subject to the voting restrictions outlined in the Explanatory Memorandum, the only persons entitled to vote at the annual meeting are registered shareholders as at 5.00pm on Tuesday, 6 October 2009 and only the shares registered in those shareholders' names may be voted at the annual meeting.

PROXIES

2. Any shareholder who is entitled to vote at the annual meeting may appoint a proxy to attend and vote on their behalf. A shareholder wishing to appoint a proxy should complete the enclosed Voting/Proxy Form and send it to Computershare Investor Services Limited, Private Bag 92119, Auckland 1142, or by fax on 09 488 8787 so as to ensure it is received at least 48 hours before the time for holding the meeting. Joint holders must all sign the form. A proxy does not have to be a shareholder in the Company. A shareholder may appoint the Chairman of the annual meeting, or another person, to act as proxy.
3. Any corporation that is a shareholder may appoint a person as its representative to attend the annual meeting and vote on its behalf, in the same manner as that in which it could appoint a proxy. A proxy granted by a corporation must be signed by a duly authorised officer or attorney, who must be acting with the corporation's express or implied authority.

VOTING REQUIREMENTS

4. In order for the ordinary resolutions (resolutions 1 – 6) to be passed, each must be approved by a simple majority of the votes of shareholders who are entitled to vote and vote on the resolution, in person or by proxy.
5. In order for the special resolution (resolution 7) to be passed, it must be approved by 75 percent or more of the votes of shareholders who are entitled to vote and vote on the resolution, in person or by proxy.
6. If resolution 7 is passed and any shareholder has cast all of the votes attached to the shares registered in that shareholder's name, and having the same beneficial owner, against the resolution, then that shareholder is entitled to require the Company to purchase those shares in accordance with section 111 of the Companies Act 1993. In this event the Company has certain rights and obligations, including the right to apply to the High Court for an order exempting it from any such obligation. Further information about this right is set out in the Explanatory Memorandum.

APPROVAL BY NZX

7. This notice of meeting has been approved by NZX Limited in accordance with NZSX Listing Rule 6.1.1.

EXEMPTION NOTICE

8. The Takeovers Panel has, pursuant to the Takeovers Code (Abano Healthcare Group Limited) Exemption Notice 2009, granted the Nominee Company, the Company and the Hutson Interests an exemption from rule 7(c) of the Takeovers Code in respect of any increases in the voting control of those persons resulting from the acquisition by the Nominee Company of 19.52 percent of the voting securities in the Company, and the Company an exemption from rule 15(b) of the Code in connection with this notice of meeting. A summary of the exemptions is set out later in this Explanatory Memorandum.

APPROVAL BY TAKEOVERS PANEL

9. The form of this notice of meeting has been approved by the Takeovers Panel, as required under the Takeovers Code (Abano Healthcare Group Limited) Exemption Notice 2009.

NO ENDORSEMENT BY TAKEOVERS PANEL

10. In granting the Takeovers Code (Abano Healthcare Group Limited) Exemption Notice 2009 and in approving the form of this notice of meeting (including the Explanatory Memorandum and the Schedules thereto), the Takeovers Panel is:
    - neither endorsing nor supporting the accuracy or reliability of the contents of this notice of meeting;
    - not implying that it has a view on the merits of the proposed transactions.

1. **ORDINARY BUSINESS**

1.1 **Resolution 2 – Alison Paterson**: In accordance with clause 11.6 of the Company's constitution and the NZSX Listing Rules, Mrs Alison Paterson retires by rotation and, being eligible, has offered herself for re-election. The Board has determined that Alison Paterson is an independent director.

Alison Paterson has been a director of the Company since 2003 and Chairman of the Board since 2006. Alison has a background in corporate governance in both the service and healthcare industry sectors, including previous appointments as the chairman of the Waitemata District Health Board and the District Health Boards New Zealand Inc. She has also served as a deputy chairman for Health Waikato and as a director of Health Benefits Limited.

Alison holds a number of current chairmanships including the Governing Board Centre of Research, Excellence, Growth and Development for the University of Auckland, Abano Healthcare Group Limited, BPAC NZ Limited and Ambulance New Zealand oversight committee. She is also deputy chair of the Reserve Bank of New Zealand, a board member of Metro Water, Vector and councillor of Massey University. Her depth of experience in the governance of a number of public and private companies and her understanding of the healthcare market add considerable value to the implementation of the Company's healthcare strategy.

1.2 **Resolution 3 – Susan Paterson**: In accordance with clause 11.6 of the Company's constitution and the NZSX Listing Rules, Mrs Susan Paterson retires by rotation and, being eligible, has offered herself for re-election. The Board has determined that Susan Paterson is an independent director.

Susan Paterson has been a director of the Company since 2005 and is Chair of the Remuneration Committee. An MBA graduate from London Business School, she has experience as a general manager and with senior management in a number of companies in New Zealand, and during her decade in the USA and Europe where she was a strategy consultant with Boston-based Index Group.

Susan has spent her life surrounded by family working in medical and health specialities and she has a good understanding of the health sector. She is a trained pharmacist and has previously owned her own pharmacy business.

Susan has over 12 years' board experience and is currently Deputy Chair of Airways Corporation, Chairs the Audit Committees of Ports of Auckland and Airways Corporation and is on the Boards of Ngawha Generation Limited, Goodman NZ Limited, Theta Systems and NZET. She has previously been a Director of Tower Health and Life, Auckland Regional Holdings, Transpower New Zealand Limited, Energy Efficiency and Conservation Authority and St Cuthbert's College.

1.3 **Resolution 4 – Danny Chan**: In accordance with clause 11.5 of the Company's constitution, Mr Danny Chan was appointed by the Board during the year, holds office until the annual meeting and is eligible for election. The Board has determined that Danny Chan is an independent director.

In late 2008, with Abano's significant expansion in both size and geographical scale, the Board determined that the appointment of a further independent director would be appropriate. Following a rigorous independent search process, the board was pleased to appoint Danny Chan.

Danny is an experienced New Zealand director with an Honours degree from Victoria University. He has indepth commercial expertise in Asia, and extensive accounting, finance and investment management experience which will greatly assist the Company as it expands into the Asia region. His other directorships include AgResearch Limited, Academic Colleges Group Limited, Aviation English Limited and Guardall N.Z. Limited as well as numerous companies associated with his private investments both in New Zealand and Asia.

2. **SPECIAL BUSINESS**

Resolutions 5, 6 and 7
Sale of Bay Audiology

2.1 The Board has resolved to recommend to shareholders the sale of the Company's 70 percent shareholding in Bay Audiology Limited ("**Bay Audiology**") to National Hearing Care (New Zealand) Limited ("**National Hearing Care**"), a wholly owned subsidiary of NHC Group Pty Limited ("**NHC**"). The remaining 30 percent of the shares in Bay Audiology, which will also be sold to NHC, are owned by interests associated with Peter Hutson (the "**Hutson Interests**"). Healthcare Industry Limited ("**HIL**"), a company wholly owned by the Hutson Interests, also own 19.69 percent of the shares in the Company. The aggregate consideration payable by National Hearing Care to the Company and the

Hutson Interests is $157.8 million.[2] In total, the Company expects to receive approximately $118 million in connection with the sale.

2.2 Bay Audiology owns and operates 64 full time and satellite audiology clinics throughout New Zealand. Included in this number are the nine full time and satellite clinics owned by Bay Audiology South Limited (in which Bay Audiology has an 85 percent shareholding). In addition, Dilworth Hearing Limited (in which Bay Audiology has a 40 percent shareholding) has five clinics.

2.3 NHC is owned as to approximately 50.2 percent by funds managed by Crescent Capital Partners Management Pty Limited and as to approximately 36.1 percent by Macquarie Investment Management Limited. Hearing Holdings Limited ("**Hearing Holdings**"), a wholly owned subsidiary of National Hearing Care, also owns 19.52 percent of the shares in the Company.

Bay International restructure

2.4 The Company's international audiology strategy is conducted through Bay International Limited ("**Bay International**"), which is 85 percent owned by Bay Audiology and 15 percent owned by interests associated with Mr Peter Hutson.

2.5 The shares in Bay International are not being sold as part of Bay Audiology. The Company's holding in Bay International will be restructured so that, following the sale of Bay Audiology to NHC, the shares in Bay International will be owned as to 50 percent by the Company, and 50 percent by the Hutson Interests. While Peter Hutson will be available to NHC on a part-time consulting basis of 10 days per quarter for a period of 12 months from completion of the proposed transaction, his core focus will be to drive the Bay International strategy, with its continuing prime focus in Australia and Asia. The Company and the Hutson Interests will recapitalise Bay International by each investing equity of $11 million, thereby eliminating Bay International's outstanding debt.

Independent appraisal report

2.6 In accordance with the NZSX Listing Rules, the proposed transactions have been reviewed by an independent appraiser appointed by the Board. KordaMentha has been approved by NZX Regulation for this purpose. KordaMentha's report is required to consider:

(a) whether or not, in KordaMentha's opinion, the consideration and the terms and conditions of the proposed transaction are fair to the Company's shareholders (other than the Hutson Interests and Hearing Holdings) and the grounds for that opinion; and

(b) whether or not, in KordaMentha's opinion, the information to be provided by the Company to shareholders is sufficient to enable shareholders to understand all relevant factors, and make an informed decision in relation to the question referred to in (a) and the grounds for that opinion.

2.7 A copy of the KordaMentha report forms part of this Explanatory Memorandum. KordaMentha has considered whether any element of the proposed transaction will result in a transfer of value from the Company to either NHC or HIL and separately assessed the fairness to those shareholders of the Company not associated with either NHC or HIL of the following elements of the proposed transaction:

(a) the sale of the shares in Bay Audiology;

(b) the allocation of the proceeds of the sale of the shares in Bay Audiology between the Company and the Hutson Interests;

(c) the restructuring of the shareholding in Bay International;

(d) the option for the Company and the Hutson Interests to reinvest in NHC's audiology business; and

(e) the loan being provided to NHC by the Company and the Hutson Interests.

KordaMentha has concluded that each of these elements is fair to those shareholders of the Company not associated with either NHC or HIL.

2.8 **The price for the acquisition by NHC of Bay Audiology is within KordaMentha's valuation range. KordaMentha's report is consistent with the Board's endorsement and recommendation of the transactions.**

Shareholder approval required

2.9 This section sets out the various requirements for shareholder approval to the proposed transactions.

2. The purchase price is subject to adjustments for movements in working capital, and other ordinary course of business adjustments, in the period up to completion.

Resolution 5

2.10 The proposed transactions constitute a "Material Transaction" with a "Related Party" for the purposes of the NZSX Listing Rules as a number of the constituent parts, involve "Related Parties" of the Company. A "Material Transaction" includes the acquisition or disposal of assets having an aggregate net value in excess of 10% of the Company's "Average Market Capitalisation" (which, as at 27 August 2009, was approximately $133.8 million).

2.11 Hearing Holdings, as a 19.52 percent shareholder in the Company, is a Related Party of the Company and its associated entity, National Hearing Care, is the purchaser of the shares in Bay Audiology.

2.12 HIL, a company wholly owned by the Hutson Interests, owns approximately 19.69 percent of the shares in the Company. Peter Hutson is a director of HIL, the Company, and a director of Bay Audiology and Bay International. The Hutson Interests also own 30 percent of the shares in Bay Audiology and the Hutson Interests own 15 percent of the shares in Bay International. The transactions have the following Related Party elements involving the Hutson Interests and Peter Hutson (see also the structure illustration set out in Schedule 3):

(a) together with the Company, the sale of shares in Bay Audiology to NHC, and an entitlement to their agreed share of the proceeds of sale. Consequent on the sale, the existing Bay Audiology shareholders agreement and related arrangements between the Company and the Hutson Interests (including the "put and call" arrangements in respect of the Hutson Interests' 30 percent shareholding) will be terminated;

(b) the provision, in common with the Company, of short-term vendor finance to National Hearing Care if required and the holding of security in connection with the sale described in (a) above;

(c) the purchase by the Hutson Interests of an additional shareholding in Bay International to take their direct holding to 50 percent (and subsequent recapitalisation of $11 million in cash), with consequential shareholding and governance arrangements. These arrangements include normal pre-emptive rights on transfer and a specific regime dealing with a transfer of shares in the event of a cessation of Peter Hutson's involvement in Bay International;

(d) the option to re-invest, in common with the Company, a portion of the sale proceeds in NHC under a call option which has been granted to the Company and the Hutson Interests. The exercise of the call option must be agreed upon jointly by the Company and the Hutson Interests, if either one declines to exercise the call option, neither party may exercise. The shares in NHC issued on any exercise of the call option will be held 50:50 by the Company and the Hutson Interests. Unless extended, the option expires on the later of the business day following the sale of Bay Audiology becoming unconditional, 10 working days prior the scheduled date for completion of the sale of Bay Audiology, and 10 working days after NHC undertakes the equity offering in respect of which the Company and the Hutson Interest have the option to participate; and

(e) various consequential completion, employment and logistical arrangements.

2.13 The resolution required to deal with the Related Party elements of the proposed transaction (resolution 5) is required pursuant to NZSX Listing Rule 9.2.1. HIL, Hearing Holdings, and their associated persons, are not entitled to vote in favour of this resolution. To be passed, resolution 5 requires the support of a bare majority of those shares entitled to vote and voting in favour of the resolution.

Resolution 6

2.14 The proposed transactions also require shareholder approval by ordinary resolution for the purposes of the Takeovers Code ("**Code**"). As part of the loan and security arrangements in relation to the vendor finance, and solely for this purpose, the Nominee Company (owned by the Company and HIL) will take legal title to Hearing Holdings' shares in the Company, representing 19.52 percent of the voting securities in the Company. Following this acquisition, the Nominee Company and its associates, the Hutson Interests and the Company, will together hold or control more than 20 percent of the voting rights in the Company, thereby increasing their holding and control of voting rights in the Company. Further information in relation to the Code implications of the proposed transactions is set out in paragraphs 2.18 to 2.28 below.

2.15 The acquisition of 19.52 percent of the shares in the Company by the Nominee Company (resolution 6) requires shareholder approval pursuant to rule 7(c) of the Code. None of HIL, NHC or their associates may vote on this resolution. To be passed, resolution 6 requires the support of a bare majority of those shares entitled to vote and voting in favour of the resolution.

Resolution 7

2.16 Given the transaction value, the proposed sale of the Company's shareholding in Bay Audiology constitutes a "major transaction" for New Zealand company law purposes (a major transaction includes the acquisition or disposition of assets the value of which is more than half the value of the Company's pre-transaction gross assets). In addition, the proposed sale requires approval pursuant to NZSX Listing Rule 9.1.1. Accordingly, a special resolution of shareholders (at least 75 percent of the votes cast) is required. There are no voting restrictions on this resolution. If this resolution is approved, shareholders voting against it will have certain rights if the sale is nevertheless implemented. These are described in paragraphs 2.32 to 2.34 below.

Transaction Structure and Terms

2.17 The key terms of the proposed transactions are as follows:

(a) The vendors of the shares in Bay Audiology are the Company (as to its 70 percent interest) and the Hutson Interests (as to their 30 percent interest). Obligations under the share sale deed are several, in proportion to the parties' respective holdings.

(b) The sale price is $157.8 million, of which all but up to $20 million is payable in cash on completion. In addition, the vendors are entitled to all profits earned by the Bay Audiology group for the period from signing to completion, subject to a minimum net tangible asset and working capital balance being retained for the benefit of the purchaser. Completion is expected to take place on 2 November 2009.

(c) Up to $20 million of the purchase price will remain owing by National Hearing Care to the vendors for a period of up to seven months from completion. Repayment of this vendor finance (to be provided by the Company and the Hutson Interests in proportion to their respective pre-sale shareholdings in Bay Audiology) is guaranteed by NHC, and secured by a first and only mortgage over Hearing Holdings' 4,534,998 shares in the Company. Interest is payable on the vendor finance at the 90 day bank bill rate + 3 percent per annum. As part of the security arrangements, Hearing Holdings' shares in the Company will be transferred to the Nominee Company on completion. Hearing Holdings will remain entitled to direct the Nominee Company as to voting the shares while National Hearing Care remains in compliance with the terms of the loan agreement and the security arrangements. If the Company and the Hutson Interests become entitled to enforce the security arrangements, they will become entitled to instruct the Nominee Company as to the voting of the shares and may require the Nominee Company to sell the shares held by it and account to them for the proceeds of sale in repayment. The final repayment date is 31 May 2010. It is possible that National Hearing Care may procure the sale of some or all of Hearing Holdings' shares in the Company prior to completion of the proposed transaction. In this event, the vendor finance will be reduced or, if all the shares are sold, not be provided.

(d) NHC has also granted a call option to the Company and the Hutson Interests to reinvest up to $30 million in NHC on a 50:50 basis which, post completion of the proposed transaction, will be the combined NHC/Bay Audiology business. The exercise of the call option must be agreed upon jointly by the Company and the Hutson Interests. If either one declines to exercise the call option, neither party may exercise. The shares in NHC issued on any exercise of the call option will be held 50:50 by the Company and the Hutson Interests and will be held on the same terms as other NHC shareholders. The Company would not have a role in the management, or strategic development, of the NHC group given its conflicting interests, particularly in Australia. If more than 50% of the option is taken up, then the Company and the Hutson Interests may appoint a Director to the board of NHC. The option, if exercised, will result in the Company and the Hutson Interests holding approximately 15 to 18 percent of the combined NHC/Bay Audiology business. Unless extended, the option expires on the later of the business day following the sale of Bay Audiology becoming unconditional, 10 working days prior the scheduled date for completion of the sale of Bay Audiology, and 10 working days after NHC undertakes the equity offering in respect of which the Company and the Hutson Interests have the option to participate.

(e) Customary restraints of trade are provided by the Company and the Hutson Interests in favour of NHC, under which neither will undertake or be involved in the provision of audiology services in New Zealand for a period of five years from completion. The restraints do not apply to the vendors' participation in the re-reinvestment option in NHC, in audiology services outside New Zealand (including Australia where NHC operates) and expressly reserve for the Company, the continued rights to use its New Zealand audiology intellectual property outside New Zealand. Peter Hutson has agreed to remain available to NHC on a part-time consulting basis of 10 days per quarter for a period of 12 months from completion.

(f) The sale remains conditional on a limited number of key approvals, including that of the Company's shareholders. The consent of the New Zealand Overseas Investment Office has been obtained.

(g) The vendors have agreed to provide customary warranties to the purchaser. These are subject to standard limitations and are the subject of warranty insurance further limiting the vendors' contingent liability in respect of the transaction.

(h) If the approval of the shareholders of the Company is not obtained to the proposed transaction, the Company must contribute to the out of pocket costs directly incurred by National Hearing Care up to a maximum of $150,000.

(i) If National Hearing Care's financiers withdraw their financing for the acquisition as a result of a "material adverse effect" (as that term is defined in the definitive documentation agreed between the Company and National Hearing Care), National Hearing Care may terminate the sale agreement. In this event, National Hearing Care must make a payment of $2,760,748 to the vendors (of which the Company is entitled to 70 percent).

Takeovers Code implications

Shareholder approval requirement

2.18 The Company is a "code company" for the purposes of the Code. The effect of rule 6 of the Code is that a person who holds or controls less than 20 percent of the voting rights in the Company (the Nominee Company) may not increase the percentage of voting rights held by it and its associates (the Company and the Hutson Interests), to more than 20 percent of the voting rights in the Company, except as provided in rule 7 of the Code.

2.19 As a consequence of the arrangements in relation to the $20 million of vendor finance outlined above, the Nominee Company will acquire legal title to Hearing Holdings' shares in the Company (representing 19.52 percent of the voting rights in the Company) for security purposes. Under the Code, the Nominee Company is also considered an associate of the Hutson Interests and the Company as a result of the loan agreement and security arrangements relating to the vendor finance. The Hutson Interests hold 19.69 percent of the voting rights in the Company. The arrangements in relation to the vendor finance will therefore result in the Nominee Company, together with its associates, holding or controlling more than 20 percent of the voting rights in the Company. This is not permitted unless shareholder approval is obtained pursuant to rule 7 of the Code.

2.20 Rule 7(c) of the Code permits a person to become the holder or controller of an increased percentage of the voting rights in a code company by an acquisition of shares if the acquisition has been approved by an ordinary resolution of the Company in accordance with the Code.

2.21 Accordingly, shareholders of the Company are asked in resolution 6 to approve the acquisition of 19.52 percent of the voting securities in the Company by the Nominee Company, as a result of which the Nominee Company and its associates hold or control an increased percentage of voting rights in the Company, up to a maximum of 39.21 percent. The Hutson Interests and Hearing Holdings will not vote on this resolution.

Independent adviser's report

2.22 Rule 18 of the Code requires the Company to obtain an independent adviser's report on the merits of the acquisition. The KordaMentha report referred to in paragraph 2.6 of this Explanatory Memorandum also comments on this aspect of the transactions for the purposes of the Code. Resolutions 5, 6 and 7 are interdependent – if shareholders do not approve all three resolutions, the proposed transaction will not proceed (unless the vendor finance is not required, in which case resolution 6 will not be put).

Rule 15 requirements/Takeovers Code (Abano Healthcare Group Limited) Exemption Notice 2009

2.23 Rule 15 of the Code requires certain information to be either contained in, or to accompany, this notice of meeting. While the Company is able to satisfy most of the information disclosure requirements of rule 15, it is not able to comply with the precise requirements of rule 15 due to the provisions of the loan agreement and security arrangements relating to the vendor finance.

2.24 Accordingly, the Company is unable to specify in this notice of meeting:

(a) the exact number of voting securities to be acquired by the Nominee Company and the percentage that that number represents as some of the shares in the Company held by Hearing Holdings may be sold prior to completion of the proposed transactions and the loan agreement provides for a monthly review mechanism meaning that the loan, and the number of shares subject to the security, may change regularly throughout the term of the loan (rule 15(b)(i) and (ii));

(b) the exact percentage of all voting securities that will be held by the Nominee Company after completion of the proposed transactions (for the same reasons as under paragraph (b) above) (rule 15(b)(iii)); and

(c) the exact aggregate of percentages of all voting securities that will be held or controlled by the Nominee Company and its associates (Abano and the Hutson Interests) after completion of the proposed transactions (for the same reasons as under paragraph (b) above) (rule 15(b)(iv)).

Likewise, these disclosures cannot be stated with certainty in respect of Abano and the Hutson Interests.

2.25 At the request of the Company, the Takeovers Panel ("**Panel**") has granted exemptions, pursuant to section 45 of the Takeovers Act 1993, in respect of the requirements of the Code that cannot be complied with (for the reasons outlined above). These exemptions are as follows:

(a) the Panel has granted the Company an exemption from rule 15(b) of the Code in respect of the requirement for this notice of meeting to describe certain information relating to the increase in the Nominee Company's voting control which arises from the acquisition by the Nominee Company of Hearing Holdings' shares in the Company; and

(b) the Panel has granted the Company, the Nominee Company and the Hutson Interests/HIL an exemption from rule 7(c) of the Code to the extent that rule 7(c) requires this notice of meeting to comply with rule 15(b) of the Code in respect of the increase in the voting control of those persons resulting from the acquisition by the Nominee Company of Hearing Holdings' shares in the Company

2.26 The Panel granted the exemptions subject to certain conditions, including:

(a) that this notice of meeting contain certain particulars in relation to the acquisition by the Nominee Company of Hearing Holdings' voting securities. Those particulars are set out in Schedule 1 to this notice of meeting;

(b) that this notice of meeting contain certain particulars in relation to the entry into, and enforcement of rights under, the loan agreement and security arrangements in respect of the Nominee Company, the Company and the Hutson Interests/HIL. Those particulars are also set out in Schedule 1 to this notice of meeting;

2.27 A summary of the relevant conditions to the exemption is set out in Schedule 2 to this notice of meeting.

2.28 The information required to be given to shareholders under Rule 15 of the Code is set out in Schedule 1 to this notice of meeting or the covering letter accompanying this notice of meeting, with the exception of the information required under some of the provisions of rule 15 of the Code for which the Company has been granted an exemption.

Use of proceeds

2.29 The Company is to receive 72 percent of the proceeds from the sale of Bay Audiology (for its 70 percent stake) with the Hutson Interests receiving 28 percent of the proceeds (for their 30 percent stake). It is intended that the Company's sale proceeds of approximately $118 million will be applied as follows:

(a) approximately $60 million to reduction of current New Zealand bank debt, resulting in a stronger balance sheet and a debt to debt+equity ratio;

(b) approximately $53 million returned to shareholders through both the payment of a special interim dividend, which will be partially imputed, and through a voluntary pro rata share buyback and cancellation which is due to be completed by late December 2009. It is intended that a Dividend Reinvestment Plan will be introduced at the same time, to enable shareholders to reinvest dividends back into the Company; and

(c) the balance of the sale proceeds will provide the Company with the ability to continue investment into existing businesses which have been identified as offering significant potential and to consider opportunities in other healthcare sectors.

Taxation considerations

2.30 The proceeds received from the sale of Bay Audiology should be a tax-free capital gain to the Company.

2.31 Shareholders should seek their own tax advice in respect of the treatment of amounts they receive from the Company, by way of share buyback and partially imputed special interim dividend. However, any dividend paid to New Zealand resident shareholders will be subject to Resident Withholding Tax to the extent it is unimputed and the shareholder does not have a valid certificate of exemption. For New Zealand resident shareholders holding their shares on capital account, any share buyback amount should be a non-taxable capital receipt.

Minority buy out rights

2.32 If the proposed transaction is implemented, those shareholders who voted all their shares against the special resolution required to approve the proposed transaction as a "major transaction" (resolution number 7) will have the right, pursuant to section 110 of the Companies Act 1993, to require the Company to purchase their shares. This is called a "minority buy out" right.

2.33 Any shareholder intending to exercise minority buy out rights must give written notice to the Company requiring it to purchase that shareholder's shares within 10 working days of the annual meeting. Within 20 working days of receipt of the notice, the Company may:

(a) agree to purchase the shares;

(b) arrange for some other person to purchase the shares; or

(c) apply to the High Court for an order exempting the Company from purchasing the shares.

2.34 Shareholders who wish to exercise minority buy out rights should seek legal advice.

Timetable

2.35 If shareholder approval of the proposed transaction is obtained, completion is scheduled to occur on or about 2 November 2009.

SCHEDULE 1

The following information is required by rule 15 of the Code (as modified by the provisions of the Takeovers Code (Abano Healthcare Group Limited) Exemption Notice 2009) in connection with the acquisition of shares by the Nominee Company pursuant to the loan agreement and security arrangements, in respect of which approval is sought pursuant to resolution 6:

1. **Identity of the persons acquiring the voting securities**

   The shares will be acquired by ABA Nominee Limited (the "**Nominee Company**").

2. **Maximum number of voting securities to be acquired by each exempted person**

   The Nominee Company could acquire up to a maximum of 4,534,998 ordinary shares in the Company (which are the only class of voting securities issued by the Company) as a result of the acquisition of Hearing Holdings' voting securities.

   The Company will not acquire any voting securities in itself as a result of the acquisition by the Nominee Company although its control of voting rights will consequently increase as described below.

   The Hutson Interests/HIL will not acquire any voting securities in the Company as a result of the acquisition by the Nominee Company although their control of voting rights will consequently increase as described below.

3. **Maximum percentage of voting securities to be acquired**

   The maximum number of voting securities that could be acquired by the Nominee Company as a result of the acquisition of Hearing Holdings' voting securities, expressed as a percentage of the total voting securities in the Company on issue, is 19.52 percent.

   As the Company and the Hutson Interests/HIL will not acquire any voting securities in the Company as a result of the acquisition by the Nominee Company of Hearing Holdings' voting securities, the maximum number of voting securities that could be acquired by the Company and the Hutson Interests/HIL as a result of the acquisition by the Nominee Company, expressed as a percentage of the total voting securities in the company, is 0 percent.

4. **Maximum percentage of voting securities to be held or controlled by each exempted person**

   The maximum number of voting securities that could be held or controlled by the Nominee Company after completion of the acquisition of Hearing Holdings' voting securities, expressed as a percentage of the total voting securities in the Company on issue, is 19.52 percent.

   The maximum number of voting securities that could be held or controlled by the Company after completion of the acquisition of Hearing Holdings' voting securities by the Nominee Company, expressed as a percentage of the total voting securities in the Company, is 39.21 percent.*

   The maximum number of voting securities that could be held or controlled by the Hutson Interests/HIL after completion of the acquisition of Hearing Holdings' voting securities by the Nominee Company, expressed as a percentage of the total voting securities in the Company, is 39.21 percent.†

5. **Maximum aggregate percentage of voting securities to be held or controlled by each exempted person and associates**

   The maximum percentage of the aggregate of all voting securities that could be held or controlled by the Nominee Company and its associates after completion of the acquisition of Hearing Holdings' voting securities is 39.21 percent. This percentage has been calculated on the basis that HIL (which holds 19.69 percent of the voting securities in the Company) is an associate of the Nominee Company.

   The maximum percentage of the aggregate of all voting securities that could be held or controlled by the Company and its associates after completion of the acquisition of Hearing Holdings' voting securities by the Nominee Company is 39.21 percent. This percentage has been calculated on the basis that HIL (which holds 19.69 percent of the voting securities in the Company) and the Nominee Company are associates of the Company.*

---

*This is due to the Company's 50 percent shareholding in the Nominee Company. However, the Company has agreed with Hearing Holdings that the Nominee Company will vote the voting securities in accordance with Hearing Holdings' instructions unless and until National Hearing Care is in default under the loan agreement and security arrangements. In addition, it is possible that the Company may have control of the Hutson Interests/HIL voting securities to the extent arising from a standstill agreement with Hutson Interests/HIL dated 26 August 2009 under which they have agreed that they shall not, directly or indirectly, alone or in concert with others, sell or otherwise dispose of any of HIL's existing shareholding in the Company until the earlier of (i) the date on which the next Company dividend is paid to the Company's shareholders and (ii) 30 working days after completion of the sale of Bay Audiology to National Hearing Care.

†This is due to HIL's 50 percent shareholding in the Nominee Company. However, HIL has agreed with Hearing Holdings that the Nominee Company will vote the voting securities in accordance with Hearing Holdings' instructions unless and until National Hearing Care is in default under the loan agreement and security arrangements.

The maximum percentage of the aggregate of all voting securities that could be held or controlled by the Hutson Interests/HIL and their associates after completion of the acquisition of Hearing Holdings' voting securities by the Nominee Company is 39.21 percent. This percentage has been calculated on the basis that the Nominee Company (which holds 19.52 percent of the voting securities in the Company) is an associate of the Hutson Interests/HIL.†

6. **Maximum number of voting rights that could be held or controlled by each exempted person**

The Nominee Company could hold or control up to a maximum of 4,534,998 ordinary shares in the Company (which are the only class of voting rights issued by the Company) as a result of the entry into, and enforcement of rights under, the loan agreement and security arrangements.

The Company could hold or control up to a maximum of 4,534,998 voting rights in itself as a result of the entry into, and enforcement of rights under, the loan agreement and security arrangements.

The Hutson Interests/HIL could hold or control up to a maximum of 9,109,891 voting rights in the Company as a result of the entry into, and enforcement of rights under, the loan agreement and security arrangements.

7. **Maximum percentage of voting rights that could be held or controlled by each exempted person**

The maximum number of voting rights that could be held or controlled by the Nominee Company as a result of the entry into, and enforcement of rights under, the loan agreement and security arrangements, expressed as a percentage of the total voting rights in the Company on issue, is 19.52 percent.

The maximum number of voting rights that could be held or controlled by the Company as a result of the entry into, and enforcement of rights under, the loan agreement and security arrangements, expressed as a percentage of the total voting rights in the Company, is 19.52 percent.

The maximum number of additional voting rights that could be held or controlled by the Hutson Interests/HIL as a result of the entry into, and enforcement of rights under, the loan agreement and security arrangements, expressed as a percentage of the total voting rights in the Company, is 39.21 percent.

8. **Maximum percentage of voting rights that could be held or controlled by each exempted person**

The maximum percentage of all voting rights that could be held or controlled by the Nominee Company resulting from the entry into, and enforcement of rights under, the loan agreement and security arrangements, is 19.52 percent.

The maximum percentage of all voting rights that could be held or controlled by the Company resulting from the entry into, and enforcement of rights under, the loan agreement and security arrangements, is 19.52 percent.

The maximum percentage of all voting rights that could be held or controlled by the Hutson Interests/HIL resulting from the entry into, and enforcement of rights under, the loan agreement and security arrangements, is 39.21 percent.

9. **Maximum aggregate percentage of voting rights that could be held or controlled by each exempted person and associates**

The maximum percentage of the aggregate of all voting rights that could be held or controlled by the Nominee Company and its associates resulting from the entry into, and enforcement of rights under, the loan agreement and security arrangements is 39.21 percent. This percentage has been calculated on the basis that HIL (which holds 19.69 percent of the voting securities in the Company) is an associate of the Nominee Company.

The maximum percentage of the aggregate of all voting rights that could be held or controlled by the Company and its associates resulting from the entry into, and enforcement of rights under, the loan agreement and security arrangements is 39.21 percent. This percentage has been calculated on the basis that HIL (which holds 19.69 percent of the voting securities in the Company) and the Nominee Company are associates of the Company.

The maximum percentage of the aggregate of all voting securities that could be held or controlled by the Hutson Interests/HIL and their associates resulting from the entry into, and enforcement of rights under, the loan agreement and security arrangements is 39.21 percent. This percentage has been calculated on the basis that the Nominee Company (which holds 19.52 percent of the voting securities in the Company) is an associate of the Hutson Interests/HIL.

10. **Basis for calculation**

The numbers and percentages set out above in sections 2 to 9 of this Schedule 1 have been calculated on the basis:

(a) that after completion of the acquisition of voting securities by the Nominee Company, the Nominee Company is the registered holder of 19.52 percent of the voting rights in the Company (that is 4,534,998 shares in the Company);

(b) of the number of shares on issue in the Company seven days before the date of this notice of meeting, being 23,232,608; and

(c) that there is no change to the total number of shares on issue in the Company between the date that is seven days before this notice of meeting and completion of the proposed transaction.

11. **Consideration for the voting securities**

The consideration for the acquisition of shares in the Company by the Nominee Company is the provision of security by the Nominee Company (as the registered holder of the shares) over the 4,534,998 shares in the Company to enable the vendor finance to be provided on terms acceptable to the Company and the Hutson Interests, and therefore to facilitate the proposed transactions. The provision of this consideration will be effective on completion of the proposed transactions by entry into and execution of the loan agreement, the security arrangements and a share transfer transferring legal title to Hearing Holdings' shares in the Company to the Nominee Company.

12. **Reasons for the acquisition**

The acquisition of shares in the Company by the Nominee Company is required in order to facilitate the proposed transactions. The provision of the vendor finance was a requirement of National Hearing Care's in order for the transaction to proceed. The Company and the Hutson Interests, as vendors of the shares in Bay Audiology, required adequate security to protect their respective rights to the amount of the vendor finance. Security over Hearing Holdings' shares in the Company was a commercially acceptable solution.

13. **Rule 15(f) statement**

The acquisition of shares contemplated by Resolution 6, if approved, will be permitted under rule 7(c) of the Code as an exception to rule 6 of the Code.

14. **Rule 15(g) statement**

The Nominee Company has confirmed that there is no agreement or arrangement (whether legally enforceable or not) that has been, or is intended to be, entered into between the Nominee Company and any other person (other than the loan agreement and the security arrangements) relating to the acquisition, holding, or control of the voting securities to be acquired, or to the exercise of voting rights in the Company.

15. **Independent adviser's report**

A report from KordaMentha, as independent adviser, that complies with rule 18 of the Takeovers Code accompanies this notice of meeting.

16. **Directors' statement**

The Directors' recommendation complying with rule 19 is set out in the covering letter that accompanies this notice of meeting.

Summary of the exemptions

The Panel has granted the Company an exemption from rule 15(b) of the Code and the Company, the Nominee Company and the Hutson Interests/HIL an exemption from rule 7(c) of the Code for the reasons, and on the basis, outlined in paragraphs 2.23 to 2.26 of the Explanatory Memorandum.

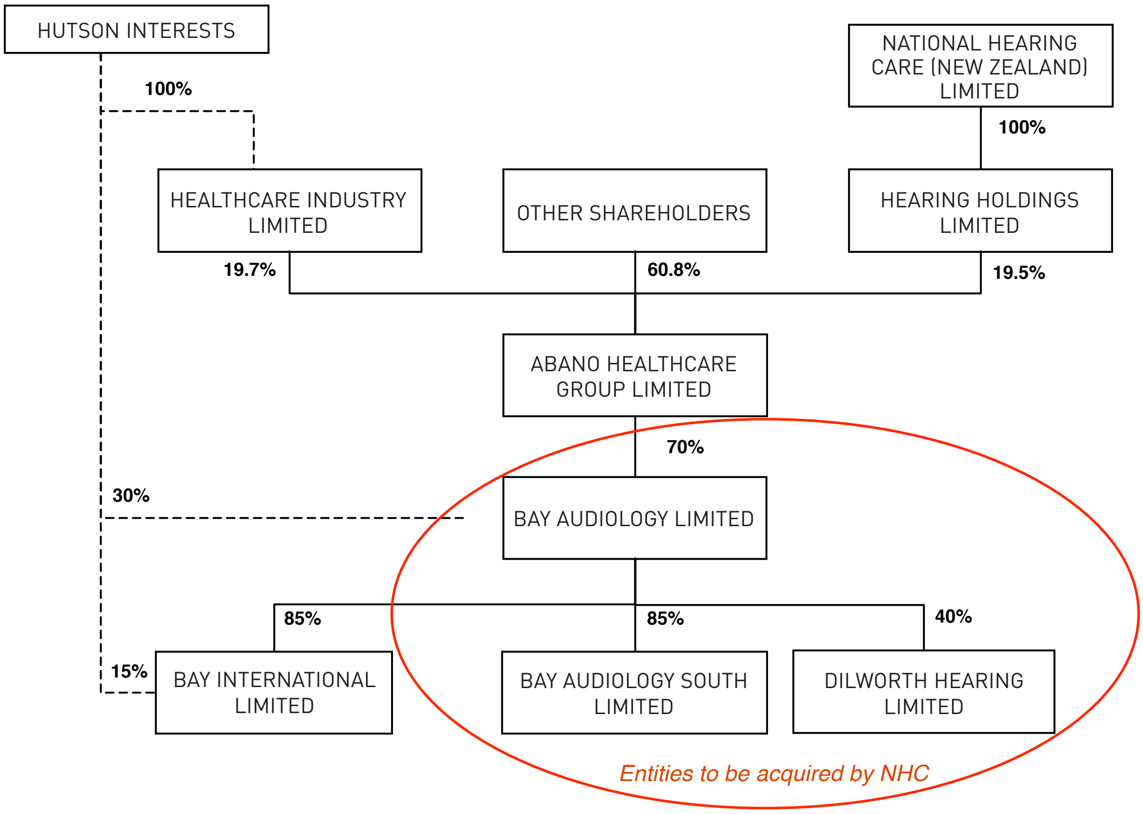
These exemptions, which are set out in the Takeovers Code (Abano Healthcare Group Limited) Exemption Notice 2009, are subject to a number of conditions, as summarised below:

- This notice of meeting must contain:
    - particulars of the voting securities in the Company that will be acquired by the Nominee Company under the loan agreement and security arrangements;
    - particulars of the voting rights in the Company that will be held or controlled by the Company under the loan agreement and security arrangements;
    - particulars of the voting rights in the Company that will be held or controlled by the Hutson Interests/HIL under the loan agreement and security arrangements
    - a statement that, in granting the exemptions, the Panel is not endorsing the contents of the notice of meeting or implying a view on the merits of the transactions referred to in the notice of meeting;
    - this summary of the terms and conditions of the exemptions granted to the Company, the Nominee Company and the Hutson Interests/HIL.

- The exemptions do not apply if:
    - during the period of the exemption, an exempted person increases their voting control in the Company by any means other than under the proposed transactions and entry into, and enforcement of rights under, the loan agreement and security arrangements as approved by the shareholders of the Company and disclosed in this notice of meeting or in a manner permitted by the Takeovers Code (Class Exemptions) Notice (No. 2) 2001; or
    - immediately after an increase referred to above, the total percentage of voting securities held or controlled by the exempted persons and their associates is greater than the maximum percentage of voting securities that could be held or controlled by those persons, as approved by the shareholders of the Company and disclosed in this notice of meeting.

- The form of this notice of meeting must be approved by the Panel.

SCHEDULE 3



Note: NHC is acquiring 100% of Bay Audiology Limited together with its shareholdings in Bay Audiology South Limited (85%) and Dilworth Hearing Limited (40%).

KordaMentha

INDEPENDENT ADVISER'S REPORT

ABANO HEALTHCARE GROUP LIMITED

SEPTEMBER 2009

INDEPENDENT NEW ZEALAND PRACTICE INTERNATIONALLY AFFILIATED WITH THE KORDAMENTHA GROUP
LEVEL 16 TOWER CENTRE, 45 QUEEN STREET, P.O. BOX 982, AUCKLAND 1, NEW ZEALAND
TELEPHONE: +64 9 307 7865 FACSIMILE: +64 9 377 7794

TABLE OF CONTENTS

GLOSSARY

Abano or the Company	Abano Healthcare Group Limited
Bay Audiology	Bay Audiology Limited
Bay International	Bay International Limited
Bay New Zealand	The New Zealand operations of Bay Audiology
Bay South	Bay Audiology South Limited
Crescent	Crescent Capital Partners
Dilworth Hearing	Dilworth Hearing Limited
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
FY	Financial Year ending 31 May
Healthcare Industry	Healthcare Industry Limited
HHL	Hearing Holdings Limited
Hutson Interests	Interests associated with Mr Peter Hutson, Mrs Anya Hutson and Mr Scott Wright
LTM	Last 12 Months
Masthead	Masthead Portfolios Limited
NHC	National Hearing Care (New Zealand) Limited
NHC Group	NHC Group Pty Limited
NTA	Net Tangible Assets
NZSX	The New Zealand Stock Market operated by NZX
NZX	NZX Limited
Proposed Transaction	The transaction described in Section 1.2 of this report
VWAP	Volume Weighted Average Price

1. INTRODUCTION

Abano Healthcare Group Limited ("Abano" or "the Company") is a specialist investor in the Australasian healthcare market. The Company operates in the audiology, dental, diagnostics and rehabilitation sectors. Abano is listed on the NZX with a share price of $6.35 and a market capitalisation of $147 million as at 31 August 2009.

Abano is proposing to sell its largest subsidiary, Bay Audiology Limited ("Bay Audiology"), to National Hearing Care (New Zealand) Limited ("NHC"). NHC is ultimately owned by NHC Group Pty Ltd ("NHC Group"), an Australian company which is associated with private equity fund manager Crescent Capital Partners ("Crescent"). Crescent attempted unsuccessfully to take over Abano during 2007/2008 at $5.20 per share.

NHC owns a 19.5% stake in Abano which it acquired during the takeover process. The shares are held by NHC's wholly owned subsidiary Hearing Holdings Limited ("HHL"), formerly Crescent Capital Partners Limited.

1.1 BACKGROUND

Abano holds 70% of the shares in Bay Audiology with the other 30% held by interests associated with Mr Peter Hutson, Mrs Anya Hutson and Mr Scott Wright (the "Hutson Interests"). As part of the 2005 acquisition of Bay Audiology by Abano, there is a put/call option in place which allows Abano to call, and the Hutson Interests to put, the remaining 30% stake in Bay Audiology at any time between 1 June 2010 and 31 October 2012, with the exercise price set at 6.25x historical EBITA. The effect of any exercise of the put/call would be that Abano would thereby own 100% of Bay Audiology.

Bay Audiology holds 85% of the shares in Bay International Limited ("Bay International") the entity which conducts audiology operations in Australia and Asia. The other 15% of the shares in Bay International are held by interests associated with Mr Hutson.

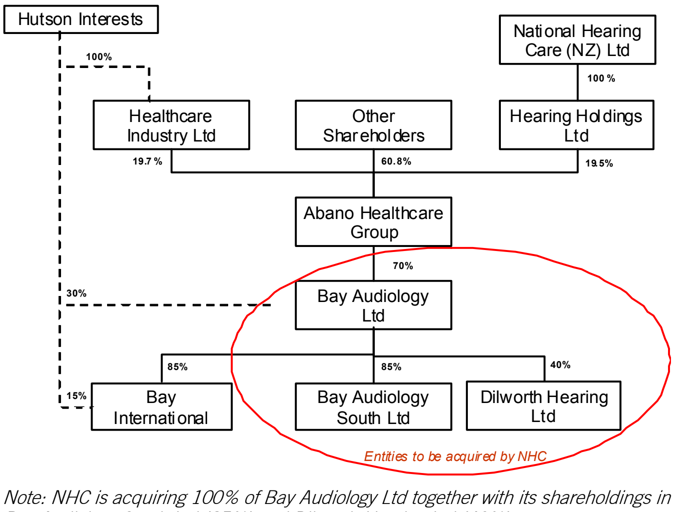
Healthcare Industry Limited ("Healthcare Industry") - a vehicle for the Hutson Interests - is currently the largest shareholder in Abano, with a 19.7% stake. NHC is the next largest shareholder in Abano, with a stake of 19.5%. The relationship between Abano, Bay Audiology and subsidiaries, Healthcare Industry and NHC is illustrated in Figure 1.1.

1.2 THE PROPOSED TRANSACTION

The Proposed Transaction consists of the following elements:

- Abano and the Huston Interests will sell 100% of the shares in Bay Audiology to NHC. Abano and interests associated with Mr Hutson will retain ownership of Bay International.
- Abano will receive 72% of the sale proceeds with the Hutson Interests receiving 28%. The Bay Audiology shareholders agreement between Abano and the Hutson Interests will be terminated, including the put/call option in relation to the Hutson Interests' shares in Bay Audiology.
- The shareholding in Bay International will be restructured so that the shares will be held 50:50 by Abano and interests associated with Mr Hutson, each of whom will then recapitalise Bay International by a cash contribution of $11 million, thereby eliminating Bay International's outstanding debt.
- NHC Group will offer Abano and the Hutson Interests an option to invest some of the proceeds of the sale of Bay Audiology back into NHC Group's enlarged Australasian audiology business. The investment, if exercised, is to be split equally between Abano and the Hutson Interests.
- Abano and the Hutson Interests will provide interest bearing vendor finance of up to $20 million to assist NHC to fund the purchase of Bay Audiology. The loan will be secured against NHC's shares in Abano, guaranteed by NHC Group, and repayable by 31 May 2010.

Figure 1.1: Relationship of Parties Involved in Proposed Transaction



Note: NHC is acquiring 100% of Bay Audiology Ltd together with its shareholdings in Bay Audiology South Ltd (85%) and Dilworth Hearing Ltd (40%).

1.3 PREVIOUS TAKEOVER OFFERS

In October 2006 Masthead Portfolios Limited ("Masthead") acquired a 19.9% stake in Abano at $1.55 per share. In September 2007 Masthead made a partial takeover for 51% of Abano at $3.85 per share. KordaMentha was appointed Independent Adviser under Rule 21 of the Takeovers Code and valued Abano at $5.00 to $5.80 per share, with a mid point of $5.40.

The independent directors of Abano recommended shareholders reject the Masthead bid. Masthead subsequently increased its partial offer to $5.00 per share. The Masthead offer lapsed unsuccessfully in December 2007.

On 5 December 2007 Crescent acquired a 10.9% stake in Abano at $5.15 per share and announced its intention to make a full cash offer for Abano at $5.20 per share.

KordaMentha was appointed Independent Adviser for the Crescent offer. On the basis of revised forecasts from Abano, KordaMentha valued the company at $5.15 to $5.90 per share.

The independent directors of Abano subsequently recommended shareholders reject the Crescent bid. In January 2008 Masthead sold its 19.9% stake in Abano to Healthcare Industry, a company owned by the Hutson Interests. The acquisition by Healthcare Industry of the Masthead stake effectively ensured that the Crescent takeover offer could not succeed. Crescent's bid did not reach the 50% minimum acceptance level and lapsed in March 2008.

1.4 PURPOSE OF THIS REPORT

The Proposed Transaction requires an appraisal report under NZSX Listing Rule 9.2.5 and Rule 18 of the Takeovers Code.

NZSX Listing Rules

According to Section 9.2 of the NZSX Listing Rules, the Proposed Transaction constitutes a material transaction with related parties. Abano is therefore required to seek shareholder approval of the Proposed Transaction by means of ordinary resolution at a meeting of shareholders.

In order for the Proposed Transaction to proceed, this resolution must be approved by shareholders holding at least 50% of shares entitled to vote and voting at the meeting. Neither Healthcare Industry nor NHC will be entitled to vote in favour of this resolution.

Rule 9.2.5 of the NZSX Listing Rules requires that the notice of meeting be accompanied by a report by an independent adviser opining on the fairness of the transaction to shareholders not associated with the related parties.

Takeovers Code

As security for the vendor loan, NHC will transfer its Abano shares to a nominee company which will be owned and controlled by Abano and the Hutson Interests. As a consequence the Hutson Interests, the nominee company, Abano and NHC will be considered associates under the Takeovers Code.

As a result of their association, after the Proposed Transaction the Hutson Interests and the nominee company, each of whom currently hold or control less than 20% of the voting rights in Abano, would together hold or control more than 20% of the voting rights in Abano. In this context, the acquisition by the nominee company of 19.5% of the voting securities in Abano is not permitted under Rule 6 of the Takeovers Code unless the transaction is approved by a majority of non-associated shareholders entitled to vote and voting on the resolution. Neither Healthcare Industry nor NHC will be entitled to vote on the resolution.

Rule 18 of the Takeovers Code requires that the notice of meeting is accompanied by an appraisal report by an independent adviser.

Approvals

The independent directors of Abano (being those not associated with Healthcare Industry – there are no directors associated with NHC) have appointed KordaMentha to prepare a report that satisfies the requirements of the NZSX Listing Rules and the Takeovers Code. Our appointment has been approved by NZX and the Takeovers Panel. We identify in this report those sections which are designed to satisfy the NZSX Listing Rules and those which fulfil the requirements of the Takeovers Code.

1.5 OTHER

This report is addressed to the independent directors of Abano, none of whom are associated with Healthcare Industry or NHC. This report is for the benefit of the shareholders of Abano not associated with Healthcare Industry or NHC.

The sources of information to which we have had access and upon which we have relied, are set out in Appendix 1 of this report. This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of this report.

References to $ relate to New Zealand dollars, unless specified otherwise. References to years or financial years mean the financial years ended 31 May.

2. EXECUTIVE SUMMARY

Abano and the Hutson Interests have agreed to sell the New Zealand operations of Bay Audiology ("Bay New Zealand") to NHC for $157.8 million. If the Proposed Transaction is approved, Abano intends to return approximately $53 million to shareholders via an early special interim dividend and a voluntary pro rata share buyback and cancellation.

2.1 IS THE PROPOSED TRANSACTION FAIR TO NON-ASSOCIATED SHAREHOLDERS?

The Proposed Transaction constitutes a material transaction with related parties. Consequently Abano is required to seek shareholder approval by means of ordinary resolution at a meeting of shareholders. This report is required by the NZSX Listing Rules to opine on the fairness of the transaction to shareholders not associated with the related parties. Because the Proposed Transaction involves several components with distinct related parties, we have considered the fairness of each component. Shareholders however can only approve or reject the Proposed Transaction in its entirety.

Sale of Bay New Zealand

We have used an EV/EBITDA multiple approach to value Bay New Zealand. Our valuation, set out in Section 4, is $147 – 177 million with a mid-point of $162 million. NHC is offering to acquire Bay New Zealand for an enterprise valuation of $157.8 million. The NHC offer is within our valuation range and is very close to our valuation mid-point. Consequently we believe the acquisition price is fair to shareholders in Abano not associated with NHC.

Allocation of Sale Proceeds

Bay Audiology is owned 70% by Abano and 30% by the Hutson Interests. Abano has a call option over the remaining 30% in Bay Audiology, which enables Abano to purchase the remaining 30% for an expected $30.4 million[1] when the option becomes exercisable on 1 June 2010.

Under the Proposed Transaction, Abano will receive 72% of the net sale proceeds with the Hutson Interests receiving 28% (or $37.9 million). At face value this represents a significant transfer of value from Abano shareholders to the Hutson Interests. If Abano and NHC were to simply wait until 1 June 2010, Abano could exercise the call option and deliver 100% of Bay New Zealand to NHC. Under this scenario, Abano would be better off by $7.5 million (equivalent to $0.32 per Abano share).

[1] *Assuming Bay New Zealand performs to budget over FY10.*

We note however that the terms of the shareholders agreement between Abano and the Hutson Interests are such that Abano requires the approval of the Hutson Interests to sell Bay Audiology before 1 June 2010. It is difficult to conclude what the Hutson Interests are fairly entitled to extract as consideration for their agreement to sell.

Whilst it appears to us that Abano has conceded more in this regard than the Hutson Interests, the reality is that the Hutson Interests (i) can prevent the sale of Bay Audiology before 1 June 2010; (ii) could theoretically receive consideration equal to 30% of the net sale proceeds via a back to back transaction with NHC; (iii) are receiving $3.0 million less than they would do under a 70:30 split of the proceeds with Abano; and (iv) are reinvesting a significant portion of their sale proceeds into Bay International. On this basis we believe that the distribution of the sale proceeds under the Proposed Transaction is fair to shareholders in Abano not associated with the Hutson Interests.

Bay International

The international operations of Bay Audiology (Bay International) are not being sold to NHC. Instead Bay International will be retained by Abano and interests associated with Mr Hutson. The current economic ownership of Bay International is 60% Abano and 40% Hutson Interests[2]. As part of the Proposed Transaction, Bay International will be owned 50:50 between Abano and interests associated with Mr Hutson.

If shareholders in Abano believe that Bay International is likely to replicate the success of Bay Audiology, they may be reluctant to see the stake of interests associated with Mr Hutson increase from 40% to 50%. Abano however believes that Bay International is more likely to succeed if Mr Hutson is managing and driving the expansion. Consequently Abano has decided that it wants Mr Hutson to be an equal shareholder in Bay International going forward.

Whilst we suspect that the Hutson Interest's current stake in Bay International should provide ample incentive for success, we also note that the interests associated with Mr Hutson are contributing $11.0 million of new equity into Bay International, which will be used to pay down debt owed to Abano. This reduces Abano's debt levels and also reduces Abano's exposure to Bay International, which does not yet have a proven business model and is forecast to be loss-making for the next two years.

[2] *The Hutson Interests own 15% of Bay International directly and have an additional effective 25% interest via their shareholding in Bay Audiology.*

We believe that Abano and the interests associated with Mr Hutson have subscribed for shares in Bay International at fair value (being a price equal to the post transaction NTA per share). Consequently we believe that the shareholding realignment is fair to shareholders of Abano not associated with the Hutson Interests.

Option to Reinvest in NHC

Another component of the Proposed Transaction is the option for Abano and the Hutson Interests to reinvest $30 million of the proceeds of the sale of Bay New Zealand into NHC Group's enlarged audiology business. If Abano and the Hutson Interests elect to take up this option, the exercise price will be determined using effectively the same multiple and valuation methodology used to determine the consideration paid by NHC for Bay New Zealand. Moreover Abano and the Hutson Interests will pay the same price to subscribe for NHC Group shares as all other investors participating in the capital raising. Consequently we believe the option to reinvest into NHC Group is fair to shareholders of Abano not associated with NHC.

Any investment into NHC Group will be split 50:50 between Abano and the Hutson Interests (in accordance with the future ownership of Bay International) rather than 70:30. On the basis that the price which Abano and the Hutson Interests are paying to reinvest into NHC Group is fair, we do not believe that reinvestment on a 50:50 basis represents any transfer in value between the parties relative to reinvestment on a 70:30 basis. Nevertheless, if Abano and the Hutson Interests choose to reinvest into NHC, they will presumably do so on the basis that they believe it will be a profitable investment, in which case shareholders may be reluctant to see the Hutson Interests take an equal stake.

Vendor Loan

In order to facilitate the financing of the Proposed Transaction, Abano and the Hutson Interests are to provide vendor finance to NHC of up to $20 million. We understand however that the vendor loan was required for the Proposed Transaction to proceed.

We note that the vendor loan has been structured in such a way that it has the key attributes of an arms-length commercial transaction – it is interest bearing; secured by a mortgage over NHC's 4.5 million shares in Abano (market value $28.8 million at a price of $6.35 per share); there is a margin call facility should the value of these shares fall; repayment is guaranteed by NHC Group; and NHC is required to apply all proceeds that it derives from its Abano shares (including sale, capital returns, share buybacks and dividends) to repayment of the vendor loan. As a consequence the outstanding balance of the vendor loan will reduce by approximately $10.3 million at the completion of the return of capital which Abano intends to implement after the Proposed Transaction occurs.

On the basis that (i) the vendor loan is a pre-requisite for the Proposed Transaction to occur; (ii) that the vendor loan has the key attributes of an arms length transaction; and (iii) that the vendor loan is being provided proportionately by the Hutson Interests as vendors also; we believe that the provision of the vendor loan to NHC is fair to the shareholders of Abano not associated with NHC.

2.2 TAKEOVERS CODE CONSIDERATIONS

As a result of the security arrangements for the vendor loan, NHC's 4.5 million shares in Abano (representing 19.5% of the Company) will be transferred to a nominee company owned by Abano and the Hutson Interests.

Resolution 6 in the Notice of Meeting requires Abano shareholders to approve the acquisition by the nominee company of the shares in Abano owned by NHC, and the resulting increase in the combined voting rights in Abano held by the nominee company and the Hutson Interests up to a maximum of 39.2%. This increase will come about as a result of the parties being deemed to be associates under the Takeovers Code.

This report is required by the Takeovers Code to consider the merits associated with allowing these parties to increase their holding or control of voting rights in Abano in this fashion.

What happens if NHC repays the vendor loan?

Provided NHC remains in compliance with the terms of the loan agreement, it will be entitled to direct the nominee company as to voting in respect of its Abano shares. Consequently the Proposed Transaction will have no impact on the control of Abano so long as NHC does not default on the vendor loan.

What happens if NHC defaults on the vendor loan?

If NHC defaults on the loan, Abano and the Hutson Interests will be able to enforce their security by either (i) requiring the nominee company to hold the Abano shares on their account; or (ii) requiring the nominee company to sell the Abano shares and account to Abano and the Hutson Interests in respect of the proceeds of sale.

If Abano and the Hutson Interests directed the nominee company to sell its Abano shares, it would be obligated to do so for the best price reasonably obtainable in the circumstances. Any buyer would be required to act in compliance with the Takeovers Code. Hence the Hutson Interests could not use an event of default to increase their holding in Abano, unless they were to make a takeover offer to all shareholders, or if the acquisition was approved by a majority of non-associated shareholders.

Whilst the nominee company held the Abano shares on behalf of Abano and the Hutson Interests, they would be able to instruct the nominee company as to the voting of these shares. Assuming the nominee company still retained a 19.5% holding in Abano, Abano and the Hutson Interests would control 39.2% of the voting securities in Abano.

Under this scenario Abano and the Hutson Interests would have a significant degree of influence over the control of Abano. If the nominee company continued to hold a 19.5% stake in Abano, Abano and the Hutson Interests would wield significant influence over ordinary resolutions, including the election of directors. Abano and the Hutson Interests would also be able to block special resolutions and would effectively have the ability to block any takeover offer for Abano.

What happens if shareholders do not approve Resolution 6?

If shareholders do not approve Resolution 6 the Proposed Transaction will not occur. We believe that this is likely to be the key merit that shareholders will wish to consider in the context of the requirements of the Takeovers Code.

2.3 OTHER CONSIDERATIONS

We discuss in Section 8 a range of other factors that shareholders may wish to consider in respect of the Proposed Transaction.

Abano's strategy post the sale of Bay New Zealand

Bay Audiology is Abano's largest division, contributing 50% of consolidated EBITDA in FY09. Consequently if the Proposed Transaction is approved, Abano will become significantly smaller.

If the Proposed Transaction is approved, Abano intends to continue its dental rollout in New Zealand and Australia; pursue the expansion of Bay International in Australia and Asia; and continue to invest in its New Zealand radiology business. Abano has indicated that it will also consider new opportunities in other healthcare sectors.

The sale of Bay New Zealand will fundamentally alter Abano's investment mix and risk profile. Whilst Bay New Zealand is a mature company with significant scale in New Zealand, both the dental division and Bay International have small market shares. Whilst the dental division is now generating positive returns, the business model for Bay International has yet to be fully proven. On the other hand, whilst Bay New Zealand's growth is starting to plateau, Abano's dental and international audiology divisions have significant growth potential. If Abano is able to replicate its success with Bay New Zealand across these divisions, it will create significant value for shareholders.

Financial performance of Abano post sale of Bay New Zealand

Indicative analysis provided to us by Abano suggests that post the sale of Bay New Zealand, Abano expects to generate future sustainable ongoing annual revenue in excess of $150 million (compared to FY09 revenue of $187 million) and sustainable ongoing EBITDA in excess of $20 million (compared to FY09 EBITDA of $31.5 million).

Return of capital & financial position post sale of Bay New Zealand

After the sale of Bay New Zealand, Abano intends to return approximately $53 million to shareholders via an early special interim dividend and a voluntary pro rata share buyback and cancellation. Following the return of capital, and assuming that Abano reinvests $15 million of the sale proceeds into NHC Group, Abano will have net debt of around $41.6 million. This corresponds to a ratio of net debt to net debt plus equity of 31%. As at 31 May 2009 Abano's ratio of net debt to net debt plus equity was 57%[3].

Value of remainder of Abano

It is clearly not possible to predict the eventual multiples at which Abano will trade post the Proposed Transaction. We would note however that all other things being equal, we would expect the valuation multiples for Bay Audiology to be higher than those for the remainder of Abano's divisions, which are smaller, with lower market shares, and in the case of Bay International, does not have a fully proven business model. As a consequence, we would not be surprised if the market attributes a lower valuation multiple to Abano post the Proposed Transaction than it attributes to the Company currently, at least until the scale of the dental business increases and Bay International is able to demonstrate it is achieving significant traction in the Australian and Asian markets.

Shareholding

Abano currently has two major shareholders – Healthcare Industry at 19.7% and NHC at 19.5%. NHC acquired its shares in Abano as part of its unsuccessful takeover offer for the Company in late 2007/early 2008. Healthcare Industry also acquired its shares at this time, in what was generally considered to be a (successful) manoeuvre to block NHC's bid.

NHC's primary motivation behind its takeover offer for Abano was to acquire Bay Audiology. If the Proposed Transaction is approved, it therefore seems logical to conclude that there will no longer be a compelling rationale for NHC to continue to own its 19.5% stake in Abano. We therefore believe that NHC is likely to be a seller of its shares in Abano if the Proposed Transaction is approved. Uncertainty surrounding NHC's intentions regarding its stake in Abano may overhang the Company's share price in the short term.

3 *Differs from Abano's reported debt ratio. Net Debt calculated as short term plus long term borrowings less cash and excluding finance leases. Equity is total shareholders funds, including retained earnings.*

2.4 CONCLUDING REMARKS

We set out in Section 6 our conclusion that the price which NHC is paying for Bay New Zealand is fair. In fact we believe it is a good price in light of the current economic climate and the lower growth and higher risks to which Bay New Zealand is likely to be exposed to in the future. We also note that the sale of Bay New Zealand relieves Abano of the contingent liability associated with the potential exercise of the put/call option over Bay Audiology.

The sale of Bay New Zealand will fundamentally alter the future nature of Abano. Whilst debt will be reduced significantly, so too will earnings. The retained businesses will have higher risk profiles than Bay New Zealand. Abano will increase its focus towards its Australasian dental expansion and an Australian/Asian audiology expansion, the business model of which is yet to be proven and which will consume cash in the short to medium term.

If Abano is able to replicate its success with Bay New Zealand across these divisions, it will create significant value for shareholders. The Proposed Transaction creates significant incentives for Mr Hutson, (whom Abano credits with much of the success of Bay Audiology) to drive this growth for Bay International.

The Proposed Transaction ensures that the Hutson Interests are well rewarded for their part in the success of Bay Audiology. Whilst shareholders may have preferred that Abano retained more of the sale proceeds and gave away a little less of the future upside, these terms are the results of commercial negotiations necessary for the Proposed Transaction to proceed.

With respect to the Takeovers Code issues, we believe the key consideration for shareholders is that the Proposed Transaction will not occur if Resolution 6 is not approved. Whilst a default on the vendor loan could result in the messy situation of the Hutson Interests and Abano controlling up to 39.2% of Abano, we believe that by far the most likely course of action under a default scenario would simply be for the Hutson Interests and Abano to sell the NHC shares into the market in order to effect repayment of the loan.

3. OVERVIEW OF BAY AUDIOLOGY

Bay Audiology is Abano's largest division, contributing 50% of Abano's consolidated EBITDA in FY09. Bay Audiology has performed extremely well since Abano acquired a 70% stake in 2005, as shown in Table 3.1.

Table 3.1: Bay Audiology – Summary Financial Performance

($m)	FY06	FY07	FY08	FY09
Revenue	13.6	30.9	43.6	62.2
EBITDA (1)	2.8	8.2	12.9	15.9

(1) After allocation of Abano corporate overhead

Bay Audiology operates in three geographical areas – New Zealand, Australia and Asia. Table 3.2 shows the number of permanent and satellite clinics Bay Audiology operates in each region. The table illustrates the rapid growth Bay Audiology has experienced.

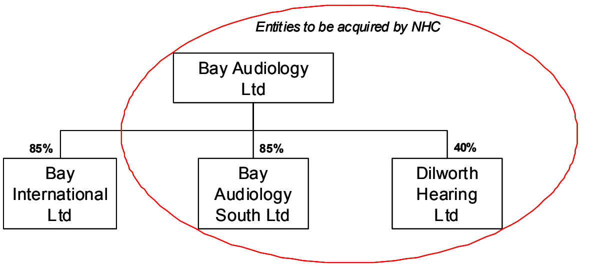
Table 3.2: Bay Clinic Numbers by Region

	FY06	FY07	FY08	FY09	FY10 (1)
New Zealand					
Permanent	16	26	36	46	52
Satellite	16	14	16	18	21
Dilworth	4	5	5	5	5
Australia					
Permanent		4	8	20	44
Satellite		5	22	28	28
Asia					
Permanent				8	16-21
Satellite				0	0

(1) Forecast as at 31 May 2010

It is evident from the tenor of Abano's more recent market announcements that the Company is expecting the growth of Bay Audiology to plateau after FY10 as Bay New Zealand "reaches a position of maturity with respect to market penetration".

Figure 3.1: Bay Audiology – Corporate Structure



Note: NHC is acquiring 100% of Bay Audiology Ltd together with its shareholdings in Bay Audiology South Ltd (85%) and Dilworth Hearing Ltd (40%).

Abano now believes that the highest growth opportunities for its audiology business will be in Australia and Asia. Table 3.2 shows that the Company intends to ramp-up its roll-out in Australia during FY10, with an additional 24 permanent clinics due to be opened. Abano is also expecting to open or acquire between 8 to 13 new audiology clinics in Asia during FY10. This includes the recently announced acquisition in Malaysia.

The corporate structure of Bay Audiology is shown in Figure 3.1. Bay Audiology owns 85% of Bay Audiology South Limited ("Bay South"), which operates nine permanent and satellite clinics in the South Island. Bay Audiology also owns 40% of Dilworth Hearing Limited which operates five clinics in the Auckland region. Bay Audiology's international operations are owned through Bay International, of which Bay Audiology owns 85% (with the remainder owned by interests associated with Mr Hutson).

The Proposed Transaction involves the sale of the New Zealand operations of Bay Audiology to NHC. Abano and interests associated with Mr Hutson will retain ownership of the Australian and Asian operations through Bay International. In this report we refer to the entities that NHC is acquiring as "Bay New Zealand".

3.1 BAY NEW ZEALAND

Bay New Zealand is New Zealand's largest and only national provider of audiological products and services, with a network of 64 permanent and satellite audiology clinics throughout New Zealand. Included in this number are the nine clinics owned by Bay South. In addition Bay New Zealand owns 40% of Dilworth Hearing, which has five permanent clinics across Auckland in equity partnership with prominent ENT specialists. Figure 3.2 shows the locations of Bay New Zealand's existing and potential clinics.

Products & Services

Bay New Zealand derives its revenues from the provision of professional clinical audiology services, which include:

- Hearing consultation and diagnostic evaluations for both adults and children.
- Tests of central auditory function.
- Customised tailored fitting of the most appropriate and digital high tech hearing aids where required.
- Audiometric assessment for civil aviation, diving and pre employment medicals.
- Hearing aid servicing and testing.

New Zealand Audiology Market

The New Zealand audiology market is highly fragmented, with a large number of independent practices, and a limited number of large practices with wider geographical spread. Bay Audiology is the only participant with national scale, and has an estimated market share of approximately 40%.

Abano estimates the New Zealand audiology market at $180 million per annum, growing at approximately 5% per annum. Abano estimates the market is roughly 45% private paying customers with public funding from ACC, War Pensions and various subsidy schemes contributing the balance.

As discussed in our January 2008 report, ACC agreed an industry accord in October 2007 with the New Zealand Audiological Society, targeting a reduced cost per hearing aid. At this time the average price per hearing aid paid by ACC to the industry was $2,194 plus GST. ACC was targeting a reduction to $1,715 per device over the following two years. The actual average industry price achieved in the 6 months to 31 May 2009 was $1,740 per device, which represents a 21% reduction in the average industry price relative to October 2007.

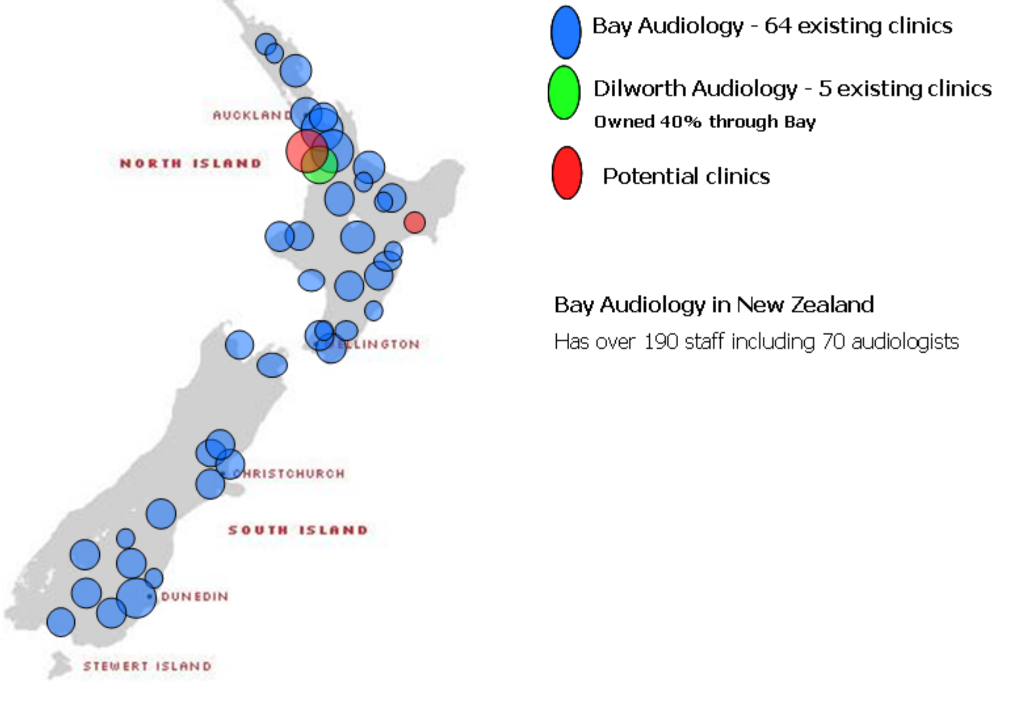
Sales & Marketing

Bay New Zealand has invested significant funds into marketing. As a result Bay Audiology has successfully built its brand and raised awareness of the services it offers. The marketing programme includes television advertising and providing free Bay-branded testing devices to general practitioners.

Financial Performance

As part of the Proposed Transaction, special purpose financial statements were prepared for Bay New Zealand and Bay International for FY09. These show that Bay New Zealand recorded sales of $51.9 million and EBITDA of $19.4 million in FY09. Abano is forecasting Bay New Zealand will achieve sales of $61.4 million in FY10 with EBITDA of $22.7 million. These figures include 100% of the performance of Bay South (the 15% that Bay New Zealand does not own is backed out as a minority interest) and 40% of the forecast net profit of Dilworth Hearing.

Figure 3.2: Bay New Zealand Existing and Potential Clinics



During FY09 Bay New Zealand acquired Dunedin Hearing (with six clinics), opened an additional four greenfield sites, and converted two satellite sites to permanent clinics. These additions grew the Bay Audiology network to 64 clinics in New Zealand. Bay New Zealand was able to support this growth by recruiting qualified audiologists from overseas.

Increased revenues during FY09 were driven in part by a successful promotional campaign aimed at both seniors and baby boomers. This resulted in unprecedented demand for free initial pre-screening appointments, which drove an increase in revenue in the last two months of FY09.

The FY10 budget for Bay New Zealand assumes that 6 new permanent clinics and 3 new satellite clinics are opened during the year. This increase in clinics, together with a full year's contribution from the clinics opened and acquired during FY09, is expected to drive an 18% increase in revenue. EBITDA margin in FY10 is expected to be relatively static at around FY09 levels.

Financial Position

The financial position of Bay New Zealand as at 31 May 2009 is summarised in Table 3.3. It shows that Bay New Zealand had interest bearing debt of $14.6 million as at 31 May 2009. Net interest bearing debt is expected to rise to approximately $20 million by the time the Proposed Transaction settles in November 2009.

Table 3.3: Bay New Zealand – Financial Position as at 31 May 2009

Assets	($m)	Liabilities & Funding	($m)
Cash	0.9	Creditors & Accruals	12.9
Debtors	11.7	Deferred Acq Consid	0.8
Inventory	1.0	Tax	1.9
Work in Progress	3.6	Term Loans	14.6
Fixed Assets	6.6	Shareholders Funds	5.6
Goodwill	11.1		
Other	0.9		
Total	**35.8**	**Total**	**35.8**

3.2 BAY INTERNATIONAL

Bay Audiology owns 85% of Bay International, which operates 20 permanent clinics and 28 visiting clinics in Australia and 11 clinics in Asia. The other 15% of Bay International is owned by interests associated with Mr Hutson. NHC will not acquire Bay International under the Proposed Transaction. This business will be retained by Abano and interests associated with Mr Hutson.

Bay in Australia

In February 2007 Abano entered the Australian audiology market with the acquisition and opening of four audiology clinics in and around Brisbane. Since this time Bay has expanded rapidly in Australia and currently operates 48 permanent and satellite clinics in Southern Queensland and northern New South Wales under the Bay Audio brand. The locations of Bay Audio's current and proposed clinics in Australia are shown on Figure 3.3.

Bay Audio's initial Australian strategy was to establish a critical mass of profitable clinics in Queensland, together with the support infrastructure required to support the brand in advance of its expansion across other Australian states. This has now commenced. Bay Audio has a retail focussed strategy of establishing "walk in" audiology stores in retail and shopping mall environments.

Abano believes the Australian audiology market represents a significant growth opportunity. The Australian audiology market is perhaps six times the size of the New Zealand market - Abano estimates it at over A$900 million per annum.

Bay in Asia

Bay Audiology established an Asian presence through the acquisition of five small audiology clinics in Singapore and two clinics in Hong Kong in December 2008. The Asian audiology footprint was expanded in July 2009 when Abano invested in two stores in Kuala Lumpur, Malaysia, facilitated through Abano's relationship with Siemens Group. Bay Audiology has recently opened another two new stores in Hong Kong. The locations of Bay International's Asian clinics are shown on Figure 3.4.

Abano operates two brands in these markets - Dynasound in Hong Kong and Sountex in Malaysia and Singapore. Bay Asia is overseen by a regional manager (based in Singapore) who works closely with individual country managers.

Growth Strategy

Bay International will target growth in Australia and Asia through the development of greenfield sites in retail malls. Abano's experience is that greenfield development requires significantly lower upfront investment and capital costs compared to growth by acquisition. Greenfield sites are however cashflow negative during their start-up phase.

Abano expects Bay International will continue to partner with local clinicians to ensure that each business has local management who understand the culture of the market in which they are operating.

Table 3.2 shows that Abano is projecting an aggressive growth strategy for Bay International, with 24 new permanent clinics expected to be opened in Australia over FY10, and a further 8 – 13 new permanent clinics targeted for Asia.

Partnerships with Manufacturers

Bay Audiology has been encouraged to enter the Asian market by multinational hearing device manufacturers, which see advantages in partnering with a retail specialist such as Bay Audiology. Bay Audiology has entered into several such partnerships, which have provided Bay Audiology with low risk entry strategies into new markets.

Financial Performance

As part of the Proposed Transaction, special purpose financial statements for Bay New Zealand and Bay International have been prepared for FY09. These statements show that Bay International recorded sales of $10.3 million and an EBITDA loss of $2.8 million in FY09. These figures include 100% of the performance of Bay Audio in Australia – the 4% of Bay Audio that Bay International does not own is backed out as a minority interest.

During FY09 Bay Audio increased the number of permanent and visiting clinics in Queensland and New South Wales from 30 to 48. Clinic numbers are budgeted to increase by a further 24 in FY10. Bay International is also expecting significant growth in Asia during FY10, budgeting to open 8 - 13 new clinics.

The growth in clinics is expected to increase revenue in FY10 to $24.1 million, an increase of 134% relative to the previous year. However because Bay International is in growth phase and opening greenfield clinics, it is expected to generate an EBITDA loss of $2.1 million in FY10, following an EBITDA loss of $2.8 million in FY09.

Over the longer term, Abano expects its greenfields strategy to provide higher returns on invested capital relative to growth by acquisition. Based upon the current growth strategy, Abano does not expect Bay International to achieve break-even at an EBITDA level until FY11.

Financial Position

The financial position of Bay International as at 31 May 2009 is summarised in Table 3.4.

Table 3.4: Bay International – Financial Position as at 31 May 2009

Assets	($m)	Liabilities & Funding	($m)
Cash	0.9	Creditors & Accruals	2.9
Debtors	2.1	Deferred Acq Consid	0.1
Inventory	0.5	Tax	(0.1)
Work in Progress	0.2	Debt	17.5
Fixed Assets	3.1	Shareholders Funds	(3.1)
Goodwill	9.2		
Other	1.3		
Total	**17.3**	**Total**	**17.3**

To date Bay International has been funded by advances provided by Abano. These loans totalled $17.5 million as at 31 May 2009. By the time the Proposed Transaction is scheduled to settle in November, Abano expects that Bay International's debt levels will have risen to $22 million, largely as a result of expansion in Australia.

Figure 3.3: Bay Australia Existing and Potential Clinics

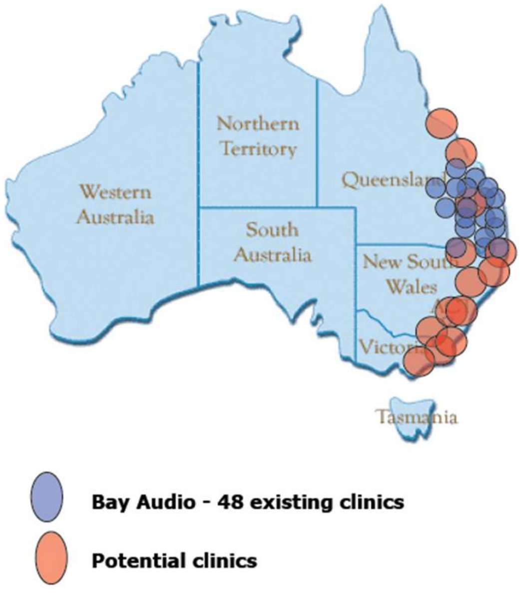


Figure 3.4: Bay Asia Existing Clinics

4. VALUATION OF BAY NEW ZEALAND

The NZSX Listing Rules require that we opine on the fairness or otherwise of the Proposed Transaction to shareholders not associated with Healthcare Industry or NHC. In this section we undertake a valuation of Bay New Zealand to determine whether or not the price to be paid by NHC for Bay New Zealand is fair.

4.1 VALUATION METHODOLOGY

We previously valued Abano (in the context of the Masthead and Crescent takeover offers) on a divisional basis using both discounted cashflow ("DCF") and multiple-based valuation methodologies. The DCF valuations were based upon divisional 5 year financial projections prepared by Abano management. As a result of the growth inherent in these projections, our previous DCF valuations for Bay New Zealand were approximately 30% higher than the multiple based valuations.

The DCF approach is generally our preferred methodology for a valuation exercise of this nature. Abano however does not have a set of current financial projections for Bay New Zealand that are suitable for use as the basis for a DCF valuation. Consequently for this report we have relied entirely upon a multiple based valuation approach for Bay New Zealand, applying EV/EBITDA multiples to FY09 actual and FY10 budget earnings.

If Bay New Zealand was projecting significant growth over the next two to three years, we would be concerned that the use of a multiple based valuation methodology alone might tend to undervalue the company. However given that Abano now expects the earnings of Bay New Zealand to plateau after FY10, we would no longer expect there to be a significant differential between the two valuation approaches.

4.2 VALUATION MULTIPLES

We have considered trading multiples of a number of listed Australasian healthcare providers and healthcare services companies. These companies operate across a range of specialties, including pathology, radiology, medical centres, private hospitals and ophthalmology. Apart from Abano, the only listed New Zealand company operating in this sector is private hospital operator Wakefield Health.

We have also included in our analysis the multiples of Ebos Group, which is a New Zealand based wholesaler of medical equipment and supplies. We note however that Ebos operates in a market that is quite distinct from that in which Bay Audiology operates.

Table 4.1: Abano EV/EBITDA Multiples

	($m)
1 Month VWAP ($ per share) (1)	5.81
Shares on Issue (m)	23.2
Market Capitalisation	134.9
Net Interest Bearing Debt (2)	89.2
PV of Deferred Consideration (3)	39.1
Enterprise Value	**263.2**
EBITDA FY2009	31.5
EBITDA FY2010 (4)	37.5
EV/EBITDA Historic	**8.4**
EV/EBITDA Current	**7.0**

(1) VWAP in the month prior to announcement of the Proposed Transaction

(2) Includes finance leases

(3) As per FY09 balance sheet. NPV of payment required to take out minorities in Bay Audiology and other dental, audiology and radiology acquisition earn-out payments.

(4) Consensus broker forecasts

We have also considered the multiples at which Abano trades. The analysis of an EV/EBITDA multiple for Abano is complicated by the existence of the minorities in Bay Audiology and in other divisions. Our analysis is shown in Table 4.1. This shows that over the month prior to the announcement of the Proposed Transaction, Abano was trading at an historic EV/EBITDA multiple of around 8.4x and a current year EV/EBITDA multiple of around 7.0x.

We have considered transaction multiples in the healthcare services sector involving Australasian target companies or Australasian acquirers. There have been a number of acquisitions in this sector in recent years. The transactions we have considered cover a range of specialities, including pathology, private hospitals, medical centres and audiology.

We have not considered multiples for rest home owner/operators. We believe these companies are largely property focussed and are therefore very different to healthcare service providers such as Abano and Bay.

The comparable acquisition multiples are illustrated in Figures 4.1 and 4.3. The transaction details are set out in Appendix 4. The comparable company multiples are illustrated in Figures 4.2 and 4.4. The multiples and company descriptions are set out in Appendix 3.

On the basis of these multiples, we have assessed a historical EV/EBITDA multiple range of 7.0x – 9.0x and a current year EV/EBITDA multiple range of 6.5x – 8.5x to apply to the earnings of Bay New Zealand. Our assessed multiple range is shown on Figures 4.1 – 4.4.

Our January 2008 valuation of Abano utilised a current year EV/EBITDA multiple range of 7.5 – 9.5x. Our current range of 6.5 – 8.5x represents a multiple contraction of 11 - 13% relative to our January 2008 range. This is a function of the current economic climate but also of the fact that Bay New Zealand is approaching maturity in its market and future growth is expected to be significantly lower than historical levels.

We note that the median EV/EBITDA multiple at which our sample of comparable listed companies trade has fallen 17% over the same period, from a median of 8.7x current year EBITDA in January 2007 to a current median multiple of 7.2x.

It is not possible to conclude definitively to what extent transaction multiples have been impacted in the current economic environment. Our analysis of comparable transactions includes seven Australasian healthcare transactions which have occurred during 2008 and 2009. The average multiple for these transactions is around 10% lower than the average multiple across the transactions in our sample which occurred prior to 2008.

4.3 MULTIPLE BASED VALUATION

Our multiple based enterprise valuation of Bay New Zealand, set out in Table 4.2, is $147 – 177 million with a mid-point of $162 million.

We have used an EV/EBITDA multiple approach to value Bay New Zealand. This is complicated by the existence of the 40% stake in Dilworth Hearing and the minorities in Bay South. As a consequence we have separately valued each of these entities and then adjusted for Abano's ownership level.

Our valuation of Bay South uses the same multiples that we have applied to Bay New Zealand – the valuation therefore assumes that Bay South remains an integrated part of the much larger Bay New Zealand group. Bay South as a stand alone company would likely attract lower multiples. The valuation multiples we have applied to Dilworth Hearing reflect the fact that this is a small company (five clinics) with static earnings, and that Bay New Zealand does not own a controlling stake.

4.4 NHC OFFER

NHC is offering to acquire Bay New Zealand for an enterprise valuation of $157.8 million. The NHC offer is within our valuation range for Bay New Zealand and is very close to our valuation mid-point.

We estimate that the NHC offer corresponds to implied enterprise value multiples for Bay New Zealand (excluding Dilworth) of 8.0x historic EBITDA[4] and 7.0x current year EBITDA. These are very similar to the multiples at which we estimate Abano was trading in the month prior to the announcement of the Proposed Transaction (see Table 4.1). This suggests NHC is valuing Bay New Zealand using effectively the same EV/EBITDA multiples which the market has been applying to Abano.

Table 4.2: Comparable Company Valuation Components

($m)	Multiple Range		EBITDA ($m)	Valuation Range	
	Low	High		Low	High
Bay NZ (excl. Bay South & Dilworth)					
FY09A EBITDA	7.0	9.0	17.7	123.7	159.0
FY10F EBITDA	6.5	8.5	20.4	132.3	173.0
Assessed EV Range				**132.3**	**159.0**
Bay South					
FY09A EBITDA (1)	7.0	9.0	2.2	15.3	19.6
FY10F EBITDA	6.5	8.5	2.4	15.4	20.1
Assessed EV Range (100%)				15.4	19.6
Assessed EV Range (85%)				**13.1**	**16.7**
Dilworth					
FY09A EBITDA	4.0	5.0	1.1	4.2	5.3
FY10F EBITDA	4.0	5.0	0.9	3.7	4.6
Assessed EV Range (100%)				4.2	4.6
Assessed EV Range (40%)				**1.7**	**1.8**
Enterprise Valuation					
Bay NZ (excl. Bay South & Dilworth)				132.3	159.0
Bay South (85%)				13.1	16.7
Dilworth (40%)				1.7	1.8
Total				**147.1**	**177.4**

(1) We have adjusted Bay South FY09 EBITDA by $430k to annualise for the acquisition of Dunedin Hearing

4 *Annualised to include 12 months contribution from Dunedin Hearing*

Figure 4.1: Comparable Acquisition Prospective EV/EBITDA Multiples

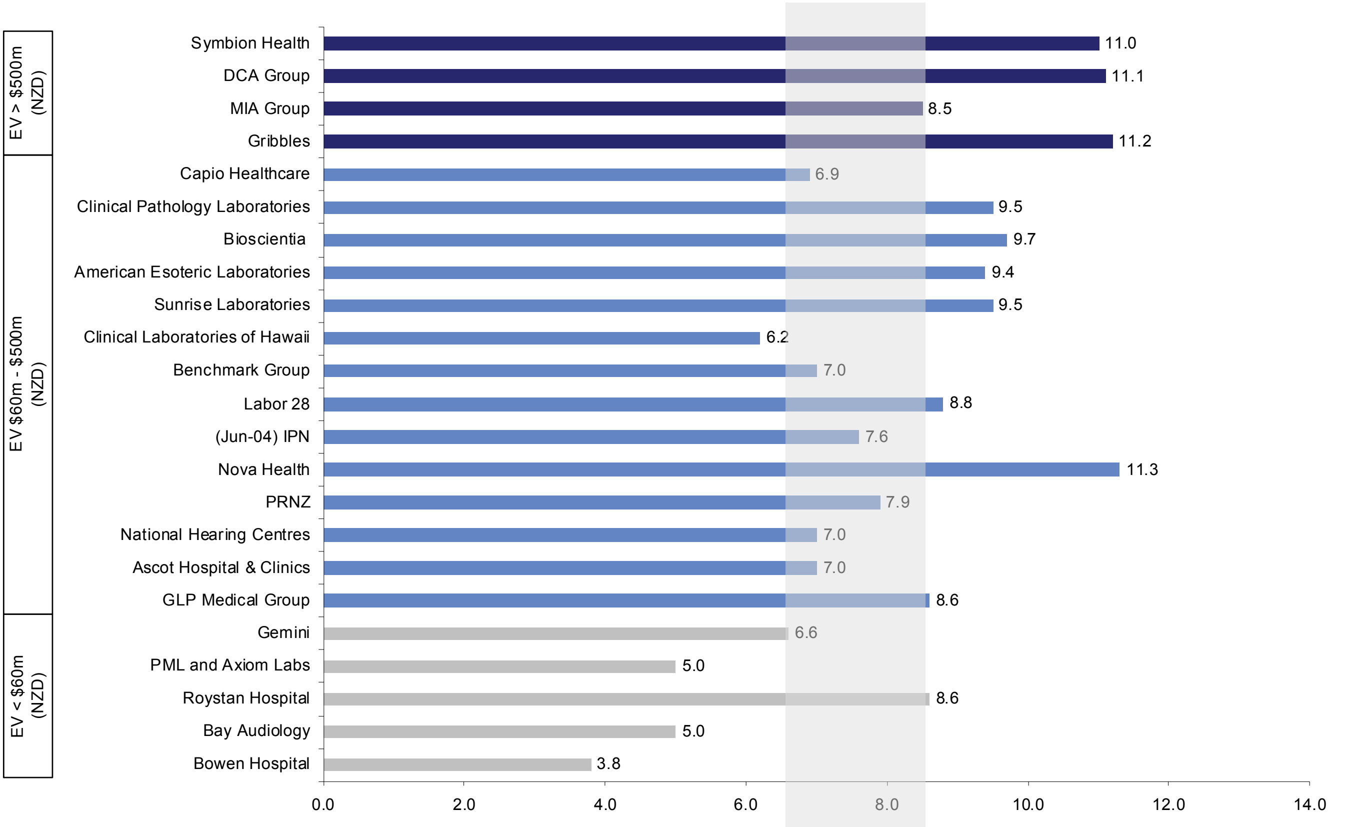


Figure 4.2: Comparable Company Prospective FY2010 EV/EBITDA Multiples

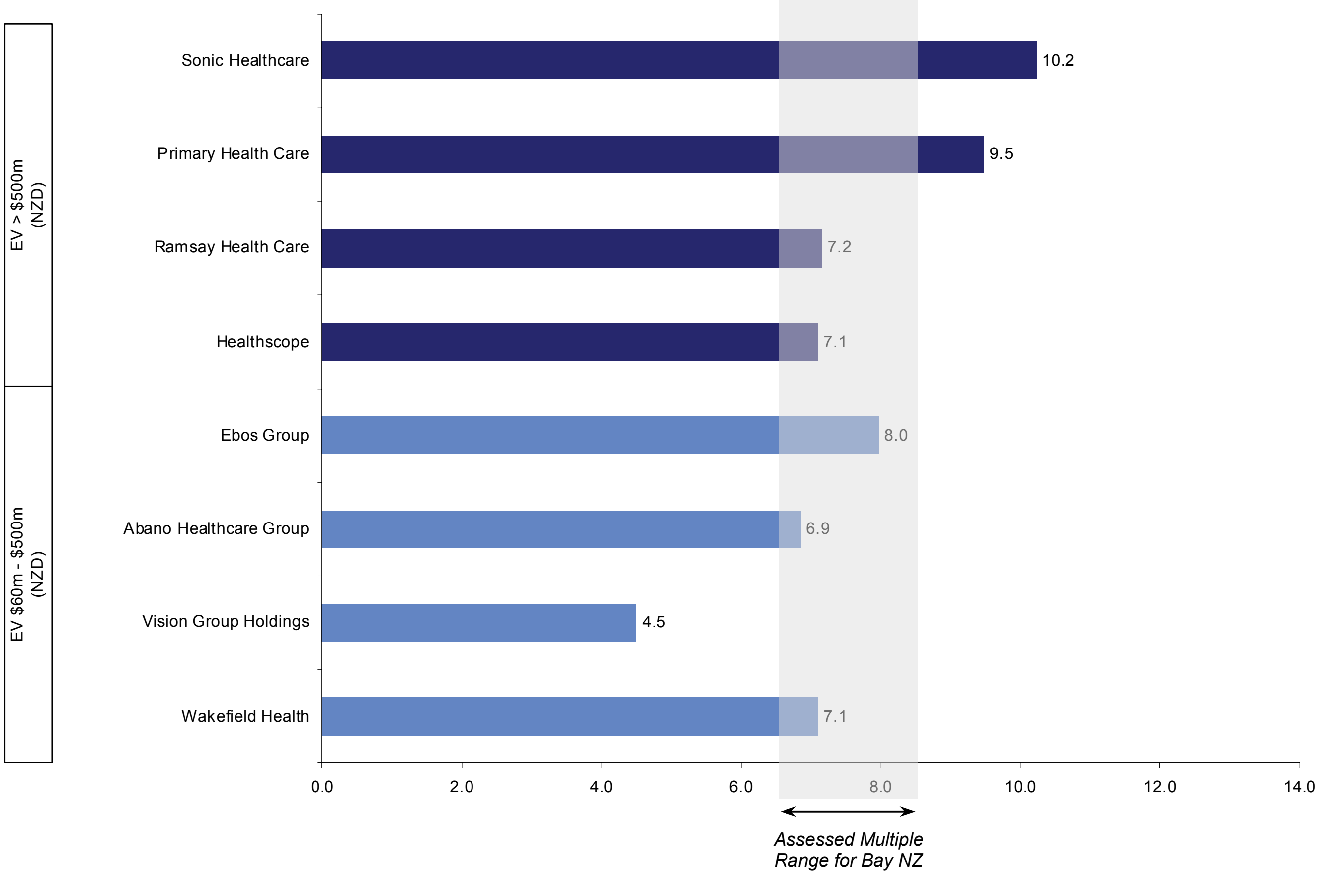


Figure 4.3: Comparable Acquisition Historic EV/EBITDA Multiples

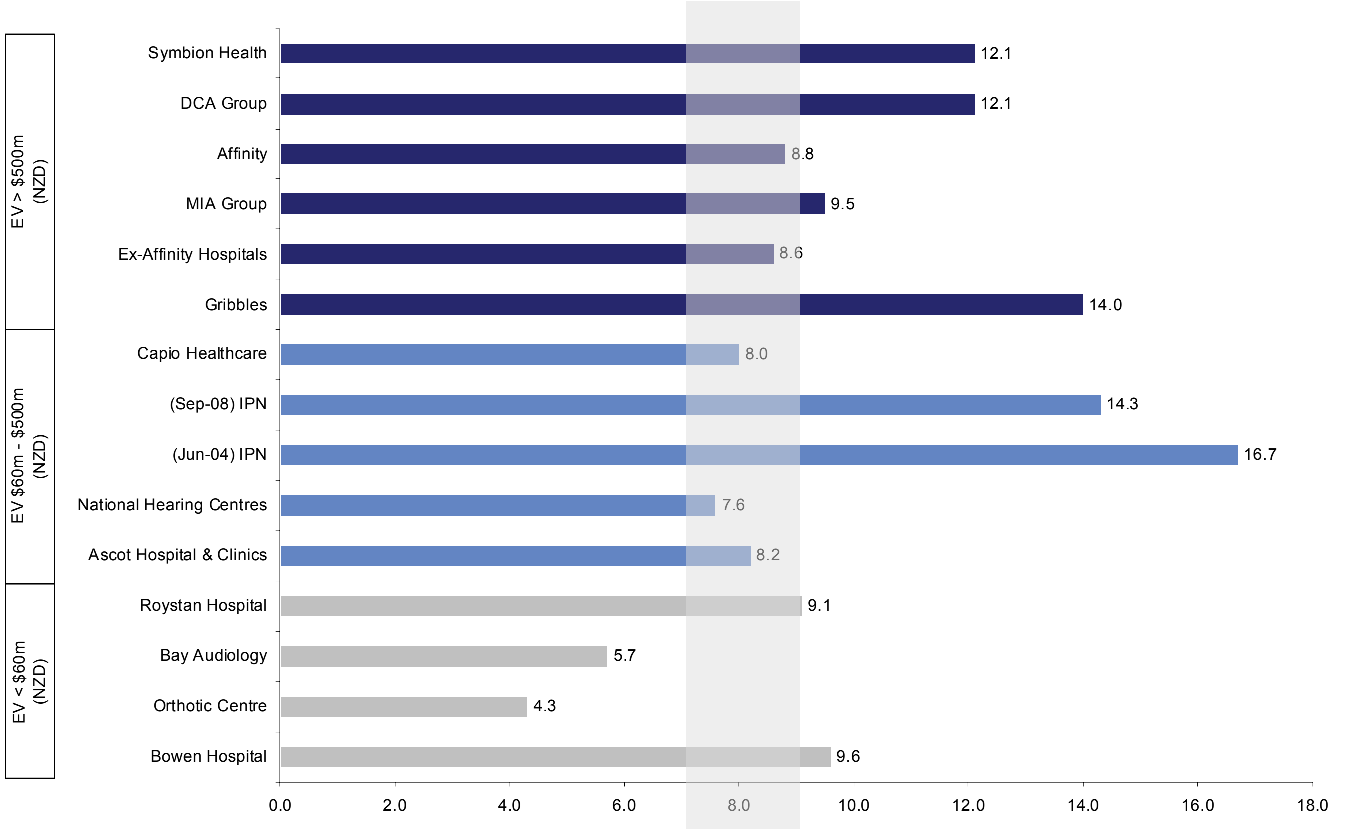
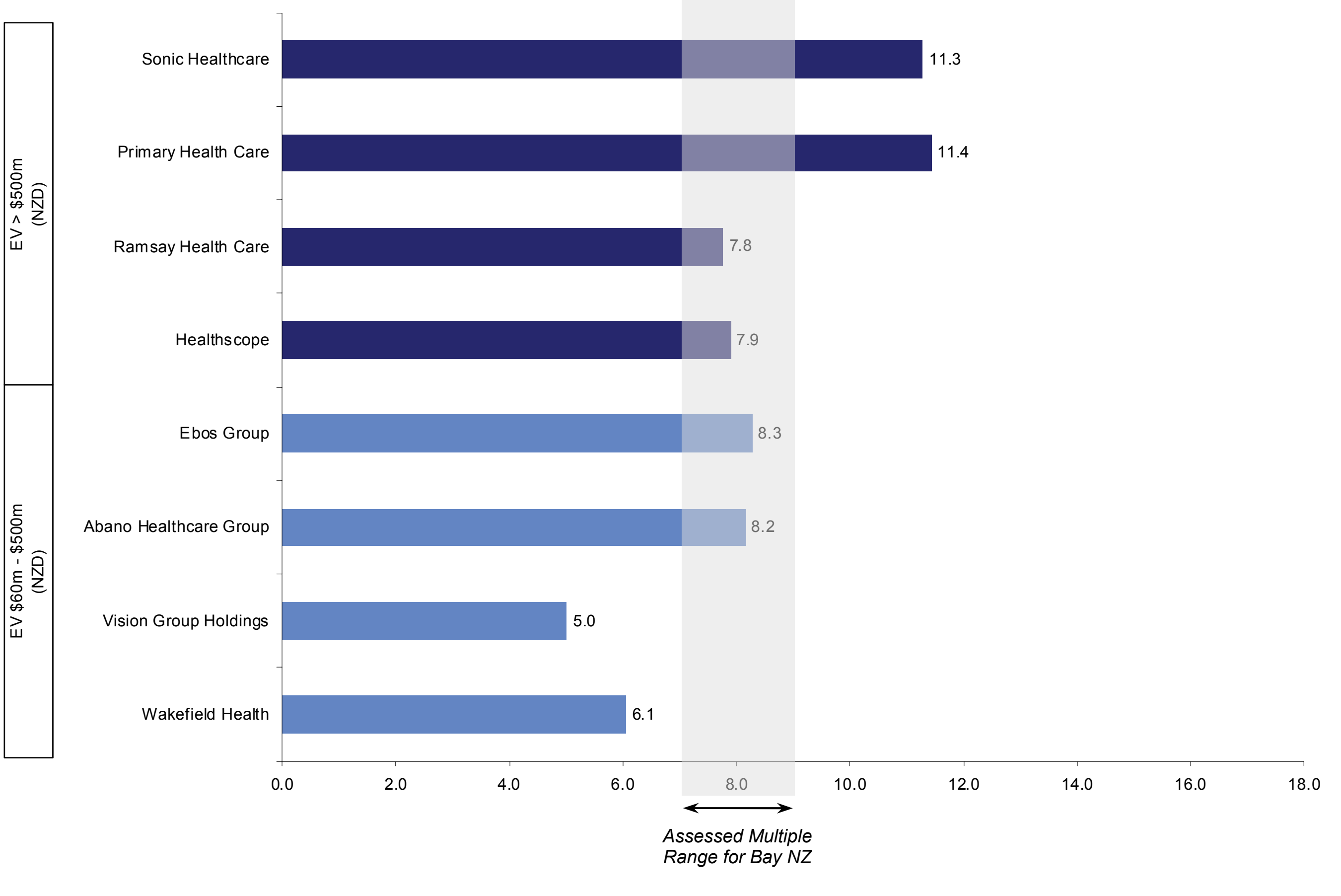


Figure 4.4: Comparable Company Historic FY2009 EV/EBITDA Multiples



5. KEY TERMS OF THE PROPOSED TRANSACTION

For the purposes of our analysis, we have considered the Proposed Transaction as a series of five related (and interdependent) component transactions:

- The sale of Bay Audiology (excluding Bay International) to NHC.
- Abano will receive 72% of the proceeds from the sale of Bay Audiology (for its 70% stake) with the Hutson Interests receiving 28% (for their 30% stake). The Bay Audiology shareholders agreement between Abano and the Hutson Interests will be terminated and the call option in relation to the Hutson Interests' shares in Bay Audiology will be extinguished.
- The restructure of the shareholding in Bay International so that the shares are held 50:50 by Abano and interests associated with Mr Hutson. Abano and interests associated with Mr Hutson recapitalise Bay International by each investing cash of $11 million, thereby eliminating Bay International's outstanding debt.
- The option for Abano and the Hutson Interests to reinvest up to $30 million in NHC Group's enlarged Australasian audiology business. The investment is to be split between Abano and the Hutson Interests 50:50.
- The provision by Abano and the Hutson Interests of vendor finance of up to $20 million to assist NHC to fund the purchase of Bay Audiology. The loan will be secured against NHC's shares in Abano, guaranteed by NHC Group, and repayable by 31 May 2010.

We set out the key terms of each component of the Proposed Transaction in this section.

5.1 SALE OF BAY

The vendors of the shares in Bay Audiology are Abano (as to its 70% interest) and the Hutson Interests (as to their 30% interest). The purchase price is $157.8 million. Up to $20 million of the purchase price is being funded by a vendor loan with the remainder payable in cash on settlement. The vendors are entitled to all profits earned by the Bay Audiology group for the period from signing to settlement, subject to a minimum net tangible asset and working capital balance being retained for the benefit of the purchaser. Settlement is expected to take place on 2 November 2009.

The sale is conditional on Abano shareholder approval and upon NHC's banks not withdrawing acquisition funding due to the occurrence of a "material adverse effect". The sale is also conditional on the Accident Compensation Corporation consenting to the change in control of Bay New Zealand, although NHC can waive this condition. Prior to settlement, Bay New Zealand's stake in Bay International must be sold to the vendors so that Bay New Zealand has no ongoing exposure to the operations of Bay International.

The sale and purchase agreement contains a range of vendor warranties which are typical for transactions of this nature. The vendors also provide an indemnity in respect of tax obligations incurred prior to settlement. The vendors and the purchaser will contribute equally to the cost of a warranty insurance policy. Any claim by the purchaser in respect of the vendor warranties or tax indemnity is limited to what the purchaser recovers under the warranty insurance.

Customary restraints of trade are provided by Abano and the Hutson Interests, under which neither will be involved in the provision of audiology services in New Zealand for a period of five years from completion. The restraints do not apply to the vendors' participation in the re-reinvestment option in NHC Group or in audiology services outside New Zealand. The sale and purchase agreement expressly grants Bay International the continued rights to use its New Zealand audiology intellectual property outside New Zealand. Mr Hutson has agreed to remain available to NHC on a part-time consulting basis of 10 days per quarter for a period of 12 months from completion.

In the event that (i) Abano board recommends that shareholders vote in favour of the Proposed Transaction; and (ii) this appraisal report is favourable in respect of the Proposed Transaction; but (iii) Abano shareholders do not approve the Proposed Transaction; then the vendors will contribute to NHC's costs up to a maximum of $150,000 plus GST. In the event that Abano shareholders approve the transaction but NHC does not complete due to bank funding, NHC will pay to the vendors 1.75% of the purchase price (of which Abano will be entitled to 70%).

5.2 ALLOCATION OF SALE PROCEEDS

When Abano acquired 70% of Bay in 2005, it also negotiated an option which allowed Abano to call, and the Hutson Interests to put, the remaining 30% stake in Bay at any time between 1 June 2010 and 31 October 2012. The exercise price for the put/call option is set at 6.25x historical EBITA.

The relationship between Abano and the Hutson Interests is governed by a shareholders agreement which provides that either party may sell its shares in Bay with the written consent of the other. Absent that consent, the sale or transfer of Bay shares is subject to the following restrictions:

- The Hutson Interests cannot sell their shares in Bay to any party until 31 October 2012. After that period, standard pre-emptive rights apply, requiring the shares to be first offered to Abano.
- Similar pre-emptive rights apply if Abano wishes to sell its shares in Bay. Abano must first offer the shares to the Hutson Interests before it can sell to a third party.
- Unless all shareholders consent otherwise, shares in Bay can only be transferred if the purchaser agrees to be bound by the shareholders agreement.

The Proposed Transaction sees the shareholders agreement terminated, so that the put/call option and all pre-emptive rights are also extinguished. 72% of the net sale proceeds are to be allocated to Abano, with the remaining 28% paid to the Hutson Interests.

5.3 REALIGNMENT OF SHAREHOLDINGS IN BAY INTERNATIONAL

The shares in Bay International owned by Bay Audiology are not being sold to NHC. Instead the Bay International shares will be transferred to Abano and interests associated with Mr Hutson. Instead of the current economic ownership of approximately 60:40 by Abano and the Hutson Interests, going forward Bay International will be owned 50:50.

Immediately following the shareholding realignment, Abano and interests associated with Mr Hutson will each subscribe for $11 million of new equity (by means of a cash investment of the same amount) in Bay International, which will be used to retire the loan advanced to Bay International by Abano. This will leave Bay International debt free with $22 million of share capital.

Mr Hutson will be available to NHC on a short-term handover role post completion of the Proposed Transaction. We understand however that his core focus will be to drive the Bay International strategy, with its continuing prime focus in Australia and Asia. Both Peter and Anya Hutson will enter into 3 year fixed term employment agreements with Bay International.

Abano and the interests associated with Mr Hutson will enter into a shareholders deed governing their relationship in respect of Bay International. Each party will be able to elect two directors to the four member board of Bay International. In the absence of any agreement to the contrary, Bay International will maintain a dividend payout ratio of essentially 100%, with debt limited to 50% of total assets.

The shareholders agreement sets out non-compete conditions for Mr Hutson (five years post after he ceases to be an employee of Bay International or sells his shares) and a specific regime dealing with a transfer of shares in the event of a cessation of Peter Hutson's involvement in Bay International.

Share transfers by Abano and interests associated with Mr Hutson are governed by pre-emptive rights. Neither party can sell part of its holding in Bay International, only the entire holding. Shares available for sale must first be offered to the other shareholder. If the other shareholder does not wish to purchase the shares, the seller may locate a third party buyer, although the other shareholder will also have a right of last refusal. Any third party which acquires shares must accede to the shareholders agreement.

5.4 OPTION TO REINVEST IN NHC'S AUDIOLOGY BUSINESS

The sale and purchase agreement sets out that the vendors will be granted an option to participate in a capital raising to be undertaken by NHC Group for the purpose of funding the acquisition of Bay Audiology. The call option is granted to Abano and the Hutson Interests upon execution of the sale and purchase agreement and must be exercised (i) within 10 days of NHC Group undertaking the capital raising; or (ii) at least 10 working days prior to settlement of the Proposed Transaction; whichever is the later. Payment must be made on or before settlement.

The option provides for the vendors to make an investment of $30 million into NHC Group, which Abano understands will secure an equity stake in NHC Group of between 15% and 18%. Provided Abano and the Hutson Interests subscribe for at least 50% of their entitlement under the call option, they will be entitled to elect one director to the board of NHC Group.

The investment will be split equally between Abano and the Hutson Interests and will be offered on an "all-in" or "all-out" basis – i.e. if Abano and the Hutson Interests fail to agree with respect to exercise of the option, neither of them shall be entitled to exercise the option. Abano and Mr Hutson will undertake due diligence on NHC Group prior to the exercise date in order to determine whether or not each wishes to take up the reinvestment option.

All parties (including Abano and the Hutson Interests) participating in the NHC Group capital raising will pay the same price to subscribe for NHC Group shares. This price will be set based on an enterprise valuation of NHC Group calculated using an EV/EBITDA multiple of 7.6 x LTM EBITDA of NHC Group (inclusive of Bay) adjusted to annualise for the impact of acquisitions which took place during the preceding twelve months.

About NHC Group

NHC Group is a focused hearing healthcare company which owns the National Hearing Care audiology businesses in Australia and New Zealand. NHC Group is associated with private equity fund manager Crescent Capital Partners.

NHC Group started with the acquisition of National Hearing Care in Australia in June 2006. At that time National Hearing Care was the largest private audiology practice in Australia with 39 hearing centres across the major states. The company has executed an aggressive growth plan over the last 30 months, expanding its Australian audiology network to cover all major regional centres. National Hearing Care New Zealand commenced operations in 2008 with the acquisition of three private audiology practices and now has a presence in Auckland and in various regional centres across New Zealand.

We expect that Crescent will be contemplating an exit of its investment in NHC Group over the short to medium term. The acquisition of Bay Audiology will significantly expand the scale of NHC Group. This will no doubt enhance NHC Group's ability to achieve an exit, whether via an initial public offering or other means.

5.5 VENDOR LOAN

Up to $20 million of the purchase price for Bay Audiology will be in the form of a vendor loan owed by NHC to Abano and the Hutson Interests (in proportion to their shareholdings in Bay Audiology). Interest is payable on the vendor loan at the 90 day bank bill rate plus 3% per annum. The loan must be repaid by 31 May 2010.

The vendor loan is secured by a first (and only) mortgage over NHC's 4.5 million shares in Abano. Repayment of the loan is guaranteed by NHC Group.

The amount of the loan ultimately advanced on settlement will be the lesser of (i) $20 million less the proceeds of any Abano shares sold by NHC prior to settlement; and (ii) 80% of the market value of the Abano shares owned by NHC at the date of settlement. The vendors will monitor the market value of NHC's Abano shares at monthly intervals. If at the time of any monthly review the balance of the loan is more than 80% of the market value of NHC's Abano shares, then the vendors can require NHC to pay down the loan until the 80% condition is again satisfied, or to lodge additional security.

All proceeds that NHC derives from its Abano shares, including sale, capital returns, share buybacks and dividends, must be applied to repayment of the vendor loan.

NHC and NHC Group undertake that they will not whilst the loan is outstanding and without the permission of the vendors, allow any change of control to occur; grant any other security interest over their Abano shares; undertake any share buyback or change in capital structure; or permit any dividend to be paid.

Upon settlement, NHC will execute a share transfer in respect of its Abano shares to a nominee company owned and controlled by Abano and the Hutson Interests. This will facilitate the vendors exercising their security in the case of default. In this event, Abano and the Hutson Interests will be able to require the nominee company to sell the Abano shares and account to Abano and the Hutson Interests in respect of the proceeds of sale.

5.6 TRANSACTION CASHFLOWS

Table 5.1 sets out the allocation of the sale proceeds between Abano and the Hutson Interests. Table 5.2 illustrates the cashflow implications of the Proposed Transaction.

Table 5.1: Allocation of Sale Proceeds

	($m)
Total Enterprise Value	157.8
Bay NZ Debt (1)	(20.0)
Transaction Costs	(1.5)
Net Proceeds of Sale	**136.3**
Hutson Interests Share	27.8%
Abano Share	72.2%
Net Proceeds to Hutson Interests	**37.9**
Net Proceeds to Abano	**98.4**

(1) Projected debt at settlement.

Table 5.2: Transaction Cash Flows

($m)	Hutson Interests	Abano	Total
Sale of Bay	37.9	98.4	136.3
Repayment of Bay NZ Loan		20.0	20.0
	37.9	**118.4**	**156.3**
Recapitalise Bay International	(11.0)	(11.0)	(22.0)
Repayment of Bay Int Loan		22.0	22.0
	26.9	**129.4**	**156.3**
Vendor Loan	(6.0)	(14.0)	(20.0)
Reinvestment into NHC Group	(15.0)	(15.0)	(30.0)
Transaction Cash Flow	**5.9**	**100.4**	**106.3**

6. FAIRNESS OF THE PROPOSED TRANSACTION (NZX REQUIREMENT)

The purpose of this section of the report is to satisfy the requirements of the NZSX Listing Rules. NZSX Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the Proposed Transaction are fair to Abano shareholders not associated with Healthcare Industry and NHC.

6.1 BASIS OF EVALUATION

In order to determine whether or not the Proposed Transaction will be fair to the non-associated shareholders of Abano, we have considered (i) the fairness of each of the components of the Proposed Transaction (as set out in the previous section); and (ii) whether any of the component transactions will result in a transfer of value from Abano to either of Healthcare Industry or NHC.

6.2 SALE OF BAY

In Section 4 of this report we value Bay New Zealand by applying comparable company trading and acquisition multiples to Bay New Zealand's historical and forecast earnings. Our resultant enterprise valuation range for Bay New Zealand is $147 to $177 million.

NHC will pay an enterprise value of $157.8 million for Bay New Zealand. This consideration is within our valuation range and is very close to our mid-point. We therefore believe the price to be paid by NHC for Bay New Zealand is fair to shareholders in Abano not associated with NHC.

6.3 ALLOCATION OF SALE PROCEEDS

The put/call option is of considerable value to Abano, because it enables Abano to purchase the remaining 30% of Bay Audiology at a price less than its current market value. Abano's analysis as at 31 May 2009 shows that the price it expects to pay for the other 30% of Bay when the option becomes exercisable on 1 June 2010 is $30.4 million.[5]

Under the Proposed Transaction, Abano will receive 72% of the net sale proceeds with the Hutson Interests receiving 28% or $37.9 million. At face value, this represents a significant transfer of value from Abano shareholders to the Hutson Interests. If Abano and NHC were to simply wait until 1 June 2010, Abano could exercise the call option and deliver 100% of Bay New Zealand to NHC. Under this scenario, Abano would be better off by $7.5 million (equivalent to $0.32 per Abano share).

Hutson Interests can prevent a sale of Bay Audiology

Abano and the Hutson Interests entered into a shareholders agreement when Abano acquired 70% of Bay Audiology. The shareholders agreement does not contain any drag-along rights (save for if Abano becomes insolvent) so Abano cannot compel the Hutson Interests to sell their shares in Bay Audiology. Hence if Abano is to deliver 100% of Bay New Zealand to NHC before the exercise period for the put/call option, it requires the consent of the Hutson Interests.

If the Hutson Interests refused to consent to the sale of Bay Audiology, Abano could still sell its 70% stake to NHC. The sale of shares in Bay Audiology is governed by the shareholders agreement, described in Section 5.2. The shareholders agreement sets out that if Abano wishes to sell its 70% stake in Bay Audiology to a third party, it must first offer this stake to the Hutson Interests.

If the Hutson Interests did not purchase the 70% stake, Abano would be free to sell the stake to NHC. NHC would be required to accede to the shareholders agreement and take over Abano's obligations under this agreement, including the put/call option. NHC would then be able to acquire the remaining 30% of Bay Audiology from the Hutson Interests after 1 June 2010 by exercising the put/call option.

It is worth noting that if Abano attempted to sell its 70% stake in Bay Audiology to NHC, this would likely constitute a major transaction for Abano under the Companies Act, requiring approval by 75% of Abano shareholders entitled to vote and voting. It would be very likely that the Hutson Interests could prevent the transaction by voting against the resolution at Abano shareholder level.

If Abano attempts to sell its stake in Bay Audiology, the Hutson Interests could purchase and on sell to a third party

If Abano were to decide to sell its 70% stake in Bay Audiology, it must first offer it to the Hutson Interests. Assuming the Hutson Interests were not purchasers, they could do a "back to back" deal with a third party, agree to purchase Abano's 70% stake in Bay Audiology, and then deliver 100% of Bay Audiology to the third party. This would enable the Hutson Interests to circumvent the pricing restrictions of the put/call options.

[5] *The actual price paid to exercise the option would depend upon the actual performance of the business and the timing of exercise.*

If the third party was NHC, it would be able to purchase 100% of Bay Audiology from the Hutson Interests for the same $157.8 million it is paying under the Proposed Transaction, whilst the Hutson Interests would be able to net the full 30% ($41.5 million) for their stake.

This is of course an unlikely scenario, because the Hutson Interests would be unable to require Abano to sell in order to activate this transaction and shareholder approval would be required. Nevertheless it further demonstrates that Abano is reliant on approval from the Hutson Interests if it wishes to sell Bay Audiology prior to 1 June 2010.

A bird in the hand…

Abano informs us that NHC wants to acquire Bay New Zealand now, as part of NHC Group's wider strategy to grow its Australasian audiology business in preparation for a likely exit via an initial public offering. Abano has informed us that there is no guarantee that NHC would still be willing to acquire Bay New Zealand in June 2010 when the put/call option is able to be exercised. Moreover Abano wishes to sell now, as it sees the growth of Bay New Zealand levelling off and the future risk profile changing as a result of competitive and other market forces.

We have established above that Abano requires the consent of the Hutson Interests to be able to sell Bay Audiology at this time. We assume this provided the Hutson Interests with negotiating leverage to extract a price premium for its stake relative to that it would receive under the put/call option.

What could the Hutson Interests expect to have received?

We believe the minimum that the Hutson Interests could have reasonably expected to receive if they wished to sell their 30% stake in Bay Audiology is the net present value of their entitlements under their put option. Based on Abano's FY10 budget the net present value of the put plus the net present value of the dividends payable between now and the exercise date is around $31.6 million. This equates to approximately 23% of the net sale proceeds from the Proposed Transaction. We believe the maximum that the Hutson Interests could expect to receive from a sale of their 30% stake in Bay Audiology would be 30% of the net sale proceeds.

What will the Hutson Interests receive?

Under the Proposed Transaction, the Hutson Interests will receive approximately 27.8% of the net sale proceeds.

Is this fair to shareholders other than the Hutson Interests?

The distribution of the sale proceeds between the two parties is the result of a commercial negotiation. Abano wishes to sell its stake in Bay New Zealand now, and requires the approval of the Hutson Interests to do so. It is difficult to conclude what the Hutson Interests are fairly entitled to extract as consideration for their agreement to sell.

Whilst it appears to us that Abano has conceded more in this regard than the Hutson Interests, the reality is that the Hutson Interests (i) can prevent the sale of Bay Audiology before 1 June 2010; (ii) could theoretically receive consideration equal to 30% of the net sale proceeds via a back to back transaction with NHC; (iii) are receiving $3.0 million less than they would do under a 70:30 split of the proceeds with Abano; and (iv) are reinvesting a significant portion of their sale proceeds into Bay International. On this basis we believe that the distribution of the net sale proceeds 72% to Abano and 28% to the Hutson Interests is fair to shareholders in Abano not associated with the Hutson Interests.

6.4 REALIGNMENT OF SHAREHOLDINGS IN BAY INTERNATIONAL

NHC is not purchasing Bay International. As shown in Figure 1.1, Bay International is currently owned 85% by Abano and 15% by interests associated with Mr Hutson. Because Bay Audiology is owned 30% by the Hutson Interests, the Hutson Interests together with Mr Hutson currently have an economic interest in Bay International of 15% + 30% x 85% = 40.5%.

To date Bay International has been entirely debt funded, and had a loan from Abano of $17.5 million as at 31 May 2009. By the time the Proposed Transaction is scheduled to settle in November, Abano expects that Bay International's debt levels will have risen to $22 million, largely as a result of expansion in Australia. This will effectively be the book value of Bay International in Abano's accounts.

Bay International recorded an EBITDA loss of $2.8 million in FY09 and is projected an EBITDA loss of $2.1 million in FY10, due to its strategy of organic growth by greenfields expansion rather than acquisition. Abano expects Bay International to breakeven at EBITDA level in FY11.

Given the historical and forecast losses of Bay International, and the lack of financial projections, it is difficult to value this entity with any accuracy. We believe that the logical valuation benchmark at this stage in Bay International's development is sunk cost, which is expected to be $22 million by the time of settlement.

Abano credits Mr Hutson as being the driving force behind the successful expansion of Bay Audiology in New Zealand. Abano believes that Bay International is more likely to succeed if Mr Hutson is managing and driving the expansion. Consequently Abano has decided that it wants Mr Hutson to be an equal shareholder in Bay International going forward.

Abano and interests associated with Mr Hutson are each contributing $11.0 million of new equity into Bay International, which will be used to repay all the debt owed to Abano. Thereafter Abano and interests associated with Mr Hutson will be 50:50 shareholders in Bay International.

Because Abano and interests associated with Mr Hutson have subscribed for shares at a price equal to their post transaction NTA per share, we believe that the issue is fair to shareholders of Abano not associated with the Hutson Interests.

6.5 OPTION TO REINVEST IN NHC'S AUDIOLOGY BUSINESS

Another component of the Proposed Transaction is the option for Abano and the Hutson Interests to reinvest some of the proceeds of the sale of Bay New Zealand into NHC Group's enlarged audiology business.

If Abano and the Hutson Interests elect to take up the option to reinvest into NHC Group, they will pay the same price to subscribe for NHC Group shares as all other investors participating in the NHC Group capital raising. This price will be determined using effectively the same multiple and valuation methodology used to determine the consideration paid by NHC for Bay New Zealand. Consequently we believe the option to reinvest some of the sale proceeds into NHC Group is fair to shareholders of Abano not associated with NHC.

We also note that any investment into NHC Group will be split 50:50 between Abano and the Hutson Interests, rather than 70:30 in accordance with the current ownership of Bay Audiology. This is consistent with Abano's expressed desire to move forward on a 50:50 basis with the Hutson Interests, and is consistent with the 50:50 future ownership of Bay International.

On the basis that the price which Abano and the Hutson Interests are paying to reinvest into NHC Group is fair, we do not believe that reinvestment on a 50:50 basis represents any transfer in value between the parties relative to reinvestment on a 70:30 basis.

6.6 VENDOR LOAN

Clearly a loan by Abano to one of its shareholders is not a transaction in the ordinary course of Abano's business. We understand from Abano however that the purpose of the vendor loan is to facilitate the financing of the Proposed Transaction. We further understand that NHC would not contemplate the Proposed Transaction absent the vendor loan.

We note that the vendor loan has been structured in such a way that it has the key attributes of an arms-length commercial transaction, including:

- Interest payable at the 90 day bank bill rate plus 3% per annum;
- Secured by a first (and only) mortgage over NHC's 4.5 million shares in Abano;
- Ownership of NHC's Abano shares will be transferred to a nominee company under the vendors' control to facilitate the vendors exercising their security in the case of default;
- Repayment of the loan is guaranteed by NHC; and
- A margin call facility which is typical of loans advanced over shares.

We also note that NHC is required to apply all proceeds that it derives from its Abano shares (including sale, capital returns, share buybacks and dividends) to repayment of the vendor loan. The $53 million capital return anticipated by Abano to occur shortly after settlement will result in an immediate reduction of the vendor loan balance by $10.3 million.

On the basis that the vendor loan is a pre-requisite for the Proposed Transaction to occur, and that the vendor loan has the key attributes of an arms length transaction, we believe that the provision of the vendor loan to NHC is fair to the shareholders of Abano not associated with NHC.

7. MERITS OF THE PROPOSED TRANSACTION (TAKEOVERS CODE REQUIREMENT)

In order to facilitate the financing of the Proposed Transaction, Abano and the Hutson Interests are to provide vendor finance to NHC of up to $20 million.

7.1 ASSOCIATES VIA LOAN AGREEMENT

The vendor finance will be recorded in a loan agreement and secured by a first (and only) mortgage over NHC's Abano shares. As part of the security arrangements NHC will transfer its Abano shares to a nominee company which will be owned and controlled by Abano and the Hutson Interests. The nominee company will therefore hold 19.5% of the voting rights in Abano (or less to the extent that NHC sells any of its Abano shares). NHC will be entitled to direct the nominee company as to voting in respect of its Abano shares whilst NHC remains in compliance with the terms of the loan agreement and security arrangements.

As a consequence of these arrangements, the Hutson Interests, the nominee company, Abano and NHC will be considered associates under the Takeovers Code (until such time as the vendor finance is repaid or the Abano shares held by the nominee company are sold).

7.2 TAKEOVERS CODE REQUIREMENTS

As a result of their associated party status, after the Proposed Transaction the Hutson Interests, Abano and the nominee company, each of whom currently hold or control less than 20% of the voting rights in Abano, would together hold or control more than 20% of the voting rights in Abano. In this context, the acquisition by the nominee company of 19.5% of the voting securities in Abano is not permitted under Rule 6 of the Takeovers Code unless the transaction is approved by a majority of non-associated shareholders entitled to vote and voting on the resolution.

Hence Abano shareholders are being asked to approve the acquisition by the nominee company of 19.5% of the voting securities in Abano and the resulting increase in the combined voting rights in Abano held by the nominee company, Abano and the Hutson Interests up to a maximum of 39.2%. This increase will come about as a result of the parties being deemed to be associates under the Takeovers Code.

The remainder of this section discusses the merits associated with allowing these parties to increase their holding or control of voting rights in Abano in this fashion.

7.3 RATIONALE FOR THE VENDOR LOAN

According to Abano the purpose of the vendor loan is to facilitate the financing of the Proposed Transaction. We understand from Abano that it is a "reluctant" lender. We further understand that the vendor loan was an absolute requirement of the transaction for NHC.

NHC may not remain a long term holder of its Abano shares post the Proposed Transaction because it will have achieved its primary goal of acquiring Abano's audiology business. It appears to us that the rationale of the vendor loan is to provide bridging finance to NHC until such time as it is able to sell its Abano shares and repay the loan.

NHC is an "information insider" under the Securities Market Act 1988. NHC is therefore prohibited from disposing of its shares in Abano until such time as the market is fully informed of any price sensitive information in relation to the Proposed Transaction or about which NHC has become aware during its due diligence investigations.

We note that if NHC is able to sell its shares in Abano prior to settlement of the Proposed Transaction, the vendor finance will not be required.

7.4 ALL RESOLUTIONS MUST BE APPROVED IF THE PROPOSED TRANSACTION IS TO PROCEED

The resolutions associated with the Proposed Transaction are inter-dependent – if shareholders do not approve all the resolutions then the Proposed Transaction will not proceed.

In Resolution 6 non-associated shareholders are being asked to approve the acquisition by the nominee company of 19.5% of the voting securities in Abano and the resulting increase in the combined voting rights in Abano held by the nominee company, Abano and the Hutson Interests up to a maximum of 39.2%. Neither the Hutson Interests nor NHC are able to vote on this resolution.

If shareholders do not approve Resolution 6 the Proposed Transaction will not occur. We believe that this is likely to be the key merit that shareholders will wish to consider in the context of the requirements of the Takeovers Code.

7.5 WHAT HAPPENS IF THE PROPOSED TRANSCTION IS APPROVED?

Provided the non-associated Abano shareholders approve the resolutions associated with the Proposed Transaction, it will proceed and NHC will acquire Bay New Zealand. Provided NHC does not sell its Abano shares prior to settlement, the vendors will provide NHC with a loan of up to $20 million, secured over NHC's Abano shares. As part of the security arrangements NHC will transfer its Abano shares to a nominee company, which will then hold 19.5% of Abano (or a lesser amount if NHC has sold any of its Abano shares in the interim).

What happens if NHC repays the loan?

Provided NHC remains in compliance with the terms of the loan agreement and security arrangements, NHC will be entitled to direct the nominee company as to voting in respect of the Abano shares held by the nominee company. Consequently the Proposed Transaction will have no impact on the current control of Abano so long as NHC does not default on the vendor loan.

In order for NHC to remain in compliance with the terms of the vendor loan, it must ensure that (i) the outstanding loan balance is not more than 80% of the market value of its Abano shares; (ii) all proceeds from the sale of its Abano shares, and all capital returns and dividends from those shares, are applied to the repayment of the loan; and (iii) the loan is repaid by 31 May 2010.

Once the vendor loan is repaid, the security over the shares (assuming they have not been sold) will be released and the shares will be transferred from the nominee company back to NHC. At this point it is expected that any relevant associations between the parties will cease.

What happens if NHC defaults on the loan?

If NHC defaults on the loan, Abano and the Hutson Interests will be able to enforce their security by either (i) requiring the nominee company to hold the Abano shares on their account; or (ii) requiring the nominee company to sell the Abano shares and account to Abano and the Hutson Interests in respect of the proceeds of sale. We note that as an “information insider”, Abano would not be able to sell these shares unless it ensured the market was fully informed as to any price sensitive information.

Whilst the nominee company continues to hold the Abano shares, Abano and the Hutson Interests will be able to direct how these shares are to be voted. This will have an impact on the control of Abano.

7.6 IMPACT ON CONTROL OF ABANO

For the duration of the loan agreement, the Hutson Interests, Abano, the nominee company and NHC will be deemed associates under the Takeovers Code. If the Proposed Transaction is approved, their combined interests in Abano will increase to a maximum of 39.2% (which is the sum of NHC's current stake of 19.5% and Healthcare Industry's 19.7% stake).

Whilst NHC is not in default of the vendor loan

Whilst the loan is not in default, the Proposed Transaction will have no impact on the current control of Abano. Under the Takeovers Code, none of the Hutson Interests, Abano, the nominee company and NHC will be able to acquire any additional shares in Abano unless that acquisition is made in the context of a takeover offer to all shareholders or is approved by an ordinary resolution of non-associated shareholders.

If NHC defaults on the vendor loan

If NHC defaults on the vendor loan, Abano and the Hutson Interests will be able to enforce their security by either (i) requiring the nominee company to hold the Abano shares on the vendors' account; or (ii) requiring the nominee company to sell the Abano shares and account to Abano and the Hutson Interests in respect of the proceeds of sale.

If Abano and the Hutson Interests sold the shares, they would be obligated to do so for the best price reasonably obtainable in the circumstances. Any buyer would be required to act in compliance with the Takeovers Code. Hence the Hutson Interests could not use an event of default to increase their holding in Abano, unless it was to make a takeover offer to all shareholders, or if the acquisition was approved by a majority of non-associated shareholders.

Whilst Abano and the Hutson Interests continued to hold the Abano shares owned by the nominee company, they would be able to instruct the nominee company as to the voting of these shares. Assuming the nominee company still retained a 19.5% holding in Abano, this would give Abano and the Hutson Interests control over 39.2% of the voting securities in Abano.

It is generally accepted that a shareholding of around 40% in a widely held public company such as Abano gives that holder effective control. This level of shareholding generally allows the shareholder to control ordinary shareholder resolutions because there are typically a large number of shareholders who do not attend meetings or provide proxies. The ability to control ordinary shareholder resolutions also enables a shareholder to elect Board members.

Under this scenario Abano and the Hutson Interests would have a significant degree of influence over the control of Abano for as long as the nominee company continued to hold a significant stake in Abano. If the nominee company continued to hold a 19.5% stake in Abano, Abano and the Hutson Interests would wield significant influence over resolutions of Abano shareholders, including the election of directors. Abano and the Hutson Interests would also be able to block special resolutions and would effectively have the ability to block any takeover offer for Abano[6].

[6] *This paragraph pre-supposes that that Abano and the Hutson Interests would vote together. It is of course entirely possible that the two parties may not agree on various issues and vote differently.*

8. OTHER CONSIDERATIONS (NZX REQUIREMENT)

NZSX Listing Rule 1.7.2 sets out the required contents of an appraisal report. According to this rule, the appraisal report is required to certify whether or not in the opinion of the reporter the information to be provided to shareholders is sufficient to enable shareholders to understand all relevant factors, and make an informed decision, in respect of the fairness or otherwise of the proposed transaction.

In order that we can make this certification, we have set out in this section an analysis of some other factors that shareholders may wish to consider when deciding how to vote in respect of the Proposed Transaction.

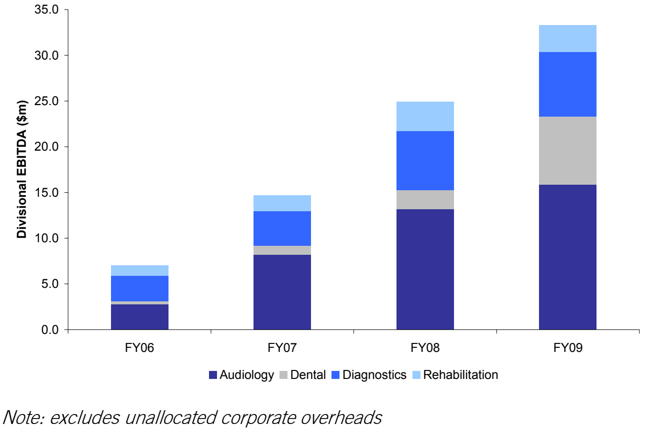
8.1 ABANO'S STRATEGY POST THE SALE OF BAY NEW ZEALAND

As Figure 8.1 illustrates, Bay Audiology is Abano's largest division, contributing 50% of consolidated EBITDA in FY09. Consequently if the Proposed Transaction is approved, Abano will become significantly smaller.

After the sale of Bay New Zealand, Abano will focus on continuing its dental rollout in New Zealand and Australia; pursuing the expansion of Bay International in Australia and Asia; and continuing to invest in its New Zealand radiology business. Abano has indicated that it will also consider new opportunities in other healthcare sectors.

We note that the sale of Bay New Zealand will fundamentally alter Abano's investment mix and risk profile. Whilst Bay New Zealand is a mature company with significant scale in New Zealand, both the dental division and Bay International have small market shares and the business model for Bay International has yet to be fully proven.

Figure 8.1: Abano EBITDA by Division



Note: excludes unallocated corporate overheads

Shareholders will also wish to consider however that whilst Bay New Zealand's growth is starting to plateau, the dental and international audiology divisions have significant growth potential. If Abano is able to replicate its success with Bay New Zealand across these divisions, it will create significant value for shareholders.

8.2 INDICATIVE FINANCIAL PERFORMANCE OF ABANO POST SALE OF BAY NEW ZEALAND

Indicative analysis provided to us by Abano suggests that post the sale of Bay New Zealand, Abano expects to generate future sustainable ongoing annual revenue in excess of $150 million (compared to FY09 revenue of $187 million) and sustainable ongoing EBITDA in excess of $20 million (compared to FY09 EBITDA of $31.5 million).

As a result of IFRS requirements Abano has indicated it will not consolidate the performance of Bay International into its financial accounts. Instead Abano will include its 50% stake in Bay International as associated company earnings, which will come in below the EBITDA line. Abano's 50% share of Bay International's forecast net loss for FY10 is $1.6 million.

8.3 FINANCIAL POSITION OF ABANO POST PROPOSED TRANSACTION

Table 8.1 summarises Abano's historical and projected balance sheets:

- Actual balance sheet as at 31 May 2009;
- Projected balance sheet as at 31 October 2009 (immediately prior to settlement);
- Projected balance sheet as at 31 October 2009 assuming that settlement of the Proposed Transaction, the reinvestment by Abano of $15 million into NHC Group, and the $53 million return of capital had occurred on that date.

Abano intends to return approximately $53 million to shareholders via an early special interim dividend and a voluntary pro rata share buyback and cancellation. Following the return of capital, and assuming Abano reinvests $15 million into NHC Group, Abano will have net debt of around $41.6 million and a ratio of net debt to net debt plus equity of 31%. As at 31 May 2009 Abano's ratio of net debt to net debt plus equity was 57%[7].

[7] *Calculated per Table 8.1. Differs from Abano's reported debt ratio. Net Debt includes short term plus long term borrowings less cash but excludes finance leases. Equity is total shareholders funds, including retained earnings.*

Table 8.1: Financial Position of Abano pre & post Proposed Transaction

($m)	Actual as at 31 May 09	Projected as at 31 Oct 09	31 Oct 09 Ex Bay NZ & Post Capital Return
Assets			
Cash	5.0	6.5	4.8
Debtors	29.6	29.2	11.7
Inventory	6.0	6.4	4.9
Fixed Assets	34.0	38.8	28.0
Investment In Associates	0.6	0.6	26.0
Vendor Loan	-	-	6.8
Goodwill	151.6	157.8	81.0
	226.8	**239.3**	**163.1**
Liabilities & Funding			
Creditors & Accruals	35.8	36.6	19.9
Deferred Acq Consid	40.2	37.7	4.7
Net Tax Liability	(1.8)	(3.8)	(2.1)
Term Loans	88.0	100.1	46.4
Derivatives	2.0	2.0	2.0
Shareholders Funds	62.6	66.9	92.2
	226.8	**239.3**	**163.1**

Post transaction Abano's 50% interest in Bay International will be treated on the balance sheet as an $11 million investment in associates, as will Abano's $15 million reinvestment into NHC Group (if made).

At settlement Abano's share of the $20 million vendor loan will be $14 million. NHC will apply the proceeds of the capital return to the payment of the vendor loan. After the capital return, Abano's share of the vendor loan will have reduced to $6.8 million.

8.4 VALUE OF REMAINDER OF ABANO

Shareholders will receive a capital return of approximately $2.28 per Abano share from the special interim dividend and share buyback to be implemented if the Proposed Transaction is approved.

In addition to the capital return, shareholders may also wish to consider the value of Abano without Bay New Zealand. It is not possible to predict the eventual multiple at which Abano will trade post Proposed Transaction. We note however that all other things being equal, we would expect the valuation multiples for Bay Audiology to be higher than those for the remainder of Abano's divisions, which are smaller, with lower market shares, and in the case of Bay International, does not have a fully proven business model.

As a consequence, we would not be surprised if the market attributes a lower valuation multiple to Abano post the Proposed Transaction than it attributes to the Company currently, at least until the scale of the dental business increases and Bay International is able to demonstrate it is achieving significant traction in the Australasian and Asian markets.

8.5 SHAREHOLDING

Abano currently has two major shareholders – Healthcare Industry at 19.7% and NHC at 19.5%. NHC acquired its shares in Abano as part of its unsuccessful takeover offer for the Company in late 2007/early 2008. Healthcare Industry also acquired its shares at this time in what was generally considered to be a (successful) manoeuvre to block NHC's bid.

NHC's primary motivation behind its takeover offer for Abano was to acquire Bay Audiology. If the Proposed Transaction is approved, it therefore seems logical to conclude that there will no longer be a compelling rationale for NHC to continue to own its 19.5% stake in Abano. We therefore believe that NHC is likely to be a seller of its shares in Abano if the Proposed Transaction is approved. Uncertainty surrounding NHC's intentions regarding its stake in Abano may overhang the Company's share price in the short term.

There may also be some uncertainty with respect to Healthcare Industry's intentions for its 19.7% stake in Abano. We assume that Healthcare Industry acquired its stake in Abano in order to prevent Crescent from acquiring Bay Audiology. If the Proposed Transaction is approved, Crescent will own Bay Audiology and this rationale for Healthcare Industry to continue to hold its 19.7% stake in Abano will no longer exist. The Hutson Interests will have an ongoing exposure to the audiology sector through their 50% stake in Bay International. We note that the Hutson Interests have undertaken not to sell their shares in Abano before the earlier of (i) the date on which Abano pays its next dividend; and (ii) 30 days after settlement of the Proposed Transaction.

9. OPINION (NZX REQUIREMENT)

The Proposed Transaction is a related party transaction because its component transactions are between Abano and its two major shareholders, Healthcare Industry and NHC. Abano is therefore required to seek shareholder approval of the Proposed Transaction by means of an ordinary resolution at a meeting of shareholders.

Rule 9.2.5 of the NZSX Listing Rules requires that the notice of meeting be accompanied by a report by an independent adviser opining on the fairness of the transaction to shareholders not associated with the related party. The independent directors of Abano have appointed KordaMentha to prepare the independent appraisal report required under Rule 9.2.5. Our appointment has been approved by NZX.

9.1 BASIS OF OPINION

Under Rule 9.2.5 this report is required to opine on whether the consideration and the terms and conditions of the Proposed Transaction are fair to Abano shareholders not associated with Healthcare Industry and NHC. This report is also required to set out the grounds for that opinion.

9.2 IS THE PROPOSED TRANSACTION FAIR TO ABANO SHAREHOLDERS NOT ASSOCIATED WITH HEALTHCARE INDUSTRY & NHC?

In Section 6 we consider the fairness of the five component transactions of which the Proposed Transaction is composed.

Sale of Bay to NHC

NHC has agreed to pay an enterprise value of $157.8 million for Bay New Zealand. This consideration is within our valuation range. We therefore believe that the price paid by NHC for Bay New Zealand is fair to shareholders in Abano not associated with NHC.

Extinguishment of the Put/Call Option

On the basis that the Hutson Interests (i) can prevent the sale of Bay Audiology before 1 June 2010; (ii) could theoretically receive consideration equal to 30% of the net sale proceeds via a back to back transaction with NHC; and (iii) are receiving $3.0 million less than they would do under a 70:30 split of the proceeds with Abano, we believe that the distribution of the net sale proceeds 72% to Abano and 28% to the Hutson Interests is fair to shareholders in Abano not associated with the Hutson Interests.

Shareholding Realignment in Bay International

Because Abano and interests associated with Mr Hutson are to subscribe for shares in Bay International at a price equal to their post transaction NTA per share, we believe that the issue is fair to shareholders of Abano not associated with the Hutson Interests.

Option to Invest in NHC Group

The price paid by Abano and the Hutson Interests to invest into NHC Group will be determined using effectively the same multiple and valuation methodology used to determine the consideration paid by NHC for Bay New Zealand. Moreover Abano and the Hutson Interests will pay the same price to subscribe for NHC Group shares as all other investors participating in the capital raising. Consequently we believe the option to reinvest some of the sale proceeds into NHC Group is fair to shareholders of Abano not associated with NHC.

Vendor Loan

On the basis that the vendor loan is a pre-requisite for the Proposed Transaction to occur, and that the vendor loan has the key attributes of an arms length transaction, we believe that the provision of the vendor loan to NHC is fair to the shareholders of Abano not associated with NHC.

9.3 REQUIREMENTS OF NZX LISTING RULE 1.7.2

NZSX Listing Rule 1.7.2 sets out the required contents of an appraisal report. In particular, Rule 1.7.2 specifies that the report must:

(i) State whether or not in the opinion of the reporter the consideration and the terms and conditions of the proposed transaction are fair to the shareholders not associated with the related party, and the grounds for that opinion.

We set out our opinion in this section. The grounds for that opinion are set out in Section 6 and elsewhere in this report.

(ii) State whether or not in the opinion of the reporter the information to be provided by Abano to shareholders is sufficient to enable shareholders to understand all relevant factors, and make an informed decision, in respect of the fairness or otherwise of the proposed transaction.

We believe that our report contains sufficient information to enable shareholders to understand all relevant factors, and make an informed decision, in respect of the fairness or otherwise of the Proposed Transaction.

(iii) State whether the reporter has obtained all information which the reporter believes desirable for the purposes of preparing the report.

KordaMentha certifies this in Appendix 1.

APPENDIX 1: SOURCES OF INFORMATION

DOCUMENTS RELIED UPON

Documents relied upon include, but are not limited to, the following:

- Draft version of the Abano Notice of Annual Meeting and Explanatory Memorandum;
- Fixed term employment agreement between Peter Hutson and Bay International Limited dated 2 November 2009;
- Fixed term employment agreement between Anya Hutson and Bay International Limited dated 2 November 2009;
- Share Sale Agreement between Bay Audiology, Bay International, Abano Healthcare and SF No.2 Trust;
- Vendor Agreement between Abano Healthcare, Healthcare Industry, SF No.2 Trust, Praxis Trust, Hutson Trust, Wright Trust, Bay International, Peter Hutson and Anya Hutson;
- Bay International Shareholders Agreement;
- Loan Agreement and Specific Security Deed between National Hearing Care (New Zealand) Ltd, NHC Group Pty Ltd, Abano and the Hutson Interests;
- Option Deed between NHC Group Pty Ltd, Abano Healthcare and the Hutson Interests;
- Share Sale Deed between National Hearing Care (New Zealand) Ltd, NHC Group Pty Ltd, Hearing Holdings Ltd, Abano Healthcare and the Hutson Interests;
- Standstill Agreement between Abano and the Hutson Interests;
- Abano Annual Report 2008 and 2009;
- Abano shareholder newsletters;
- Abano website: www.abanohealthcare.co.nz
- Abano presentation to investors – September 2009;
- Abano Financials – FY08 (actual), FY09 (actual), FY10 (forecast);
- Analyst reports by ABN AMRO Craigs and Forsyth Barr;
- Earnings estimates and comparable company data sourced from Reuters Knowledge, various broker reports, and annual reports.

We have also had discussion with some of Abano's independent Directors and management executives in relation to the nature of the business operations, and the specific risks and opportunities of the Company for the foreseeable future.

KordaMentha has been provided with all the information believed necessary for the preparation of this report.

RELIANCE UPON INFORMATION

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Abano and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of Abano. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose

APPENDIX 2: QUALIFICATIONS & DECLARATIONS

QUALIFICATIONS

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare an independent report as required under Rule 18 of the Takeovers Code.

The persons responsible for preparing and issuing this report are Michael Stiassny BCom, LLB and Daniel Molloy BSc. Both have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

DISCLAIMERS

It is not intended that this report should be used or relied upon for any purpose other than that set out in Section 1.4 of this report. KordaMentha expressly disclaims any liability to any equity security holder that relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

INDEMNITY

Abano has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct or breach of law. Abano has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct or breach of law in which case KordaMentha shall reimburse such costs.

INDEPENDENCE

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with Abano that could affect its ability to provide an unbiased opinion in relation to this transaction. KordaMentha considers itself to be independent for the purposes of the Takeovers Code and NZSX Listing Rules. KordaMentha has had no part in the formulation of the offer or any undertaking in relation to this transaction. Its only role has been in the preparation of this report.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the offer or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to Abano and its legal advisers, solely for the purpose of verifying the factual matters contained in the report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

CONSENT

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to Abano shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

APPENDIX 3: COMPARABLE COMPANIES

Table A3.1: Trading Multiples for Australasian Healthcare Providers/Healthcare Services Companies (Local $m)

Company	Country of Domicile	Sector	Market Cap	EBITDA		EV/EBITDA	
				Historic	Prospective	Historic	Prospective
Abano	New Zealand	Audiology / Dental Services / Radiology Services	135	31.5	37.5	8.4	7.0
Ebos Group	New Zealand	Medical Equipment & Supplies	276	37.5	39.2	8.3	8.0
Wakefield Health	New Zealand	Private Hospitals	125	22.1	18.8	6.1	7.1
Healthscope	Australia	Private Hospitals / Pathology	1,131	223.7	244.5	7.9	7.1
Primary Health Care	Australia	Medical Centres / Pathology / Health Technology	2,678	348.1	419.6	11.4	9.5
Ramsay Health Care	Australia	Private Hospitals	1,922	404.0	443.8	7.8	7.2
Sonic Healthcare	Australia	Pathology / Radiology / Medical Centres	4,817	580.4	636.1	11.3	10.2
Vision Group Holdings	Australia	Ophthalmic Services	65	34.0	34.1	5.0	4.5
					Median	**7.9**	**7.2**
					Average	**8.2**	**7.6**

Source: Reuters Knowledge

(1) We have excluded retirement village owner/operators from this analysis

(2) Ebos is not strictly a member of this sector, but we believe it is relevant given that it is one of the few listed New Zealand companies operating in the healthcare sector

(3) Abano EV/EBITDA multiples have been excluded from both the median and average

(4) All multiples as at 30 August 2009 with the exception of Abano. Abano's multiple is calculated using the VWAP in the month prior to the announcement of the Proposed Transaction.

Ebos Group

Ebos Group Limited markets healthcare and scientific brands sourced from international manufacturers. The company operates in two business segments: Healthcare and Scientific. Healthcare incorporates a range of sectors, own brands, retail healthcare and wholesale activities servicing public and private hospitals, primary care providers, dentists, rehabilitation facilities, and retirement villages and aged care facilities. This is done through business units, pharmacy, grocery, and clinics. Scientific incorporates the sale of laboratory consumables, life sciences equipment and technical support to industry and research laboratories.

Wakefield Health

Wakefield Health Limited is an NZSX listed company whose core business is providing private surgical and medical health services. The company operates two private hospitals in the Wellington region (Wakefield Hospital and Bowen Hospital), and a private hospital in the Hawke's Bay (Royston Hospital). On 10 August 2007 the company sold its 50% shareholding in its non-core clinical trials subsidiary, P3 Research Limited, to CBS Trials Limited, the other shareholder in P3.

Healthscope

Healthscope is engaged in the provision of healthcare services, through the ownership and management of hospitals, and the provision of diagnostic services (pathology). Its operating segments include pathology, analytical, hospitals and other. The Company operates in three geographical areas: Australia, New Zealand and South East Asia.

On June 20, 2007, Healthscope acquired Skin Alert Pty Ltd, which operates a number of skin cancer clinics in Queensland and New South Wales. On June 1, 2007, it acquired Newcastle Private Hospital Pty Ltd. On February 12, 2007, Healthscope acquired QPH Wickham Pty Ltd and its wholly owned subsidiary, Brisbane Private Hospital Pty Ltd. On December 12, 2006, the Company acquired DoctorsLab Diagnostics Pte Ltd Singapore. In addition, they acquired the minority interests (42.8%) held by Berjaya Group Berhad in the Gribbles Pathology (Malaysia) SDN BHD in August 2006.

Primary Healthcare

Primary Health Care Limited is an Australia-based medical centre operator, which also provides pathology and health technology. The Company is organized in four segments: Medical centres, which operates medical centres and provides administrative services to medical practitioners; Pathology operations, which provide pathology services; Health technology, which develops, sells and supports health-related software products; and Investments, which has bought and developed medical centres that have been consequently sold and leased back by the medical centre segment.

Ramsay Healthcare

Ramsay Health Care Limited owns and operates private hospitals. As at June 2007, the Company had a portfolio of 67 private hospitals and day care facilities across Australia and Indonesia, with over 7,000 beds. Services provided include anaesthetics, cancer care, cardiology, drug and alcohol programs, endocrinology, fertility service, general surgery, haematology/oncology, nuclear medicine, orthopaedics, paediatrics and plastic surgery.

Sonic Healthcare

Sonic Healthcare is engaged in the provision of medical diagnostic services, and the provision of administrative services and facilities to medical practitioners. The company operates across three segments: Pathology, which provides pathology services across Australia, NZ, the UK, Germany and the USA; Radiology, which provides radiology and diagnostic imaging services in Australia, NZ and in Hong Kong; and Other, which includes the corporate office function and other minor operations, as well as the results of Independent Practitioner Network Limited.

In October 2005, Sonic acquired 82% of Clinical Pathology Laboratories (CPL). In January 2007, it completed the purchase of American Esoteric Laboratories and the remaining interest in CPL. In May 2007, it acquired Medica Laboratory Group (Medica) based in Zurich, Switzerland.

Vision Group Holdings

Vision Group Holdings provides private ophthalmic services in Australia. It offers a complete range of ophthalmic services, however, the focus continues to be on cataract procedures and refractive surgery. It performs these services through a co-ordinated network of practices in Victoria, Queensland and New South Wales. The Company generates revenues through consultation fees for patient examinations and tests; surgical fees for ophthalmic procedures; surgical fees for non-ophthalmic procedures, and day surgery theatre fees.

APPENDIX 4: COMPARABLE TRANSACTIONS

Table A4.1: Healthcare sector acquisitions involving Australasian acquirers or targets

Target	Primary Location of Target	Acquirer	Date	% Acquired	Enterprise Value (Local $m)	EV / EBITDA	
						Historic	Prospective
IPN	AUS	Sonic Healthcare	Sep-08	100%	A$326	14.3	
Symbion Health	AUS	Primary Health Care	Apr-08	100%	A$3067	12.1	11.0
Gemini	AUS	IPN	Apr-08	100%	A$32		6.6
DCA Group	AUS	CVC Capital Partners Asia Pacific	Sep-06	100%	A$2640	12.1	11.1
National Hearing Centres	AUS	Life Healthcare	Jul-06	100%	A$71	7.6	7.0 (2)
Ex-Affinity Hospitals	AUS	Healthscope	Sep-05	100%	A$490	8.6	
Affinity	AUS	Ramsay	Apr-05	100%	A$1428	8.8	
Nova Health	AUS	Healthscope	Mar-05	100%	A$85		11.3
Gribbles	AUS	Healthscope	Oct-04	100%	A$428	14.0	11.2
MIA Group	AUS	DCA Group	Aug-04	100%	A$917	9.5	8.5
Benchmark Group	AUS	Ramsay	Jul-04	100%	A$125		7.0 (2)
IPN	AUS	Sonic Healthcare	Jun-04	72%	A$97	16.7	7.6
PRNZ	NZ	EBOS	Aug-07	100%	NZ$103		7.9
Roystan Hospital	NZ	Wakefield Health	Nov-06	100%	NZ$31.1	9.1	8.6
Bay Audiology	NZ	Abano Healthcare	Oct-05	70%	NZ$30	5.7	5.0
Orthotic Centre	NZ	Abano Healthcare	Oct-05	70%	NZ$6.4	4.3	
Ascot Hospital & Clinics	NZ	Integrated Hospitals	May-05	100%	NZ$64.9	8.2	7.0
Bowen Hospital	NZ	Wakefield Health	Jul-02	100%	NZ$5	9.6	3.8
PML and Axiom Labs	USA	Sonic Healthcare	Aug-09	100%	US$22.5		5.0
GLP Medical Group	GER	Sonic Healthcare	Sep-08	100%	EUR$30		8.6
Clinical Laboratories of Hawaii	USA	Sonic Healthcare	Sep-08	100%	US$121		6.2
Labor 28	GER	Sonic Healthcare	Jul-08	100%	EUR$70		8.8
Capio Healthcare	UK	Ramsay	Sep-07	100%	GBP193	8.0	6.9
Sunrise Laboratories	USA	Sonic Healthcare	Aug-07	100%	US$148		9.5
Bioscientia	GER	Sonic Healthcare	Aug-07	100%	EUR$190		9.7
American Esoteric Laboratories	USA	Sonic Healthcare	Dec-06	100%	US$180		9.4
Clinical Pathology Laboratories	USA	Sonic Healthcare	Aug-05	80%	US$292		9.5
		Median (all)				**9.1**	**8.6**
		Mean (all)				**9.9**	**8.2**
		Median (Aus)				**12.1**	**11.0**
		Mean (Aus)				**11.5**	**9.6**
		Median (Aus & NZ)				**9.3**	**8.2**
		Mean (Aus & NZ)				**10.0**	**8.3**
		Median (NZ)				**8.2**	**7.0**
		Mean (NZ)				**7.4**	**6.5**

Source: Company announcements, Independent Appraisal Reports, Reuters Knowledge

(1) We have excluded pure play retirement village owner/operator transactions from this analysis *(2) Approximate*

IPN

Independent Practitioner Network ("IPN") provides infrastructure, facilities and management services for the healthcare industry.

On 22 June 2004, Sonic Healthcare Limited ("Sonic") announced its intention to offer 8 cents per share for 2 out of every 3 shares in IPN. This offer was later raised to 8.5 cents per share, which valued 100% of IPN at $82.5 million, representing a 70% premium to a competing offer by Primary Health Care. IPN management unanimously agreeing that the Sonic offer was superior. Prior to the offer, Sonic had been a partner and shareholder to IPN.

At the time of the offer, IPN operated 73 medical centres and 28 Allied Health medical centres and the Cliveden Hill Private hospital in Melbourne. Of the 44 accredited pathology collection centres operating at IPN medical centres, Sonic operated 41. The multiples implied by the transaction reflected Sonic's desire to preserve the revenue from these accredited collection centres. When the offer closed in August 2004, Sonic owned 72.2% of IPN.

On 16 April 2008, Sonic confirmed that it had approached IPN with an indicative proposal involving the purchase of IPN's remaining 18.5% of the shares on issue. Sonic offered 25 cents per share for the remaining 28.5 per cent of IPN, this was later raised to 27 cents per share and received the independent directors recommendation. The share traded at 19 cents per share just before the first announcement, giving a premium of 53%.

Symbion

Symbion Health provides diagnostic and wellness services through its pathology, diagnostic imaging, medical centres and pharmacy services divisions as well as health-related products through its consumer division. On 29 May 2007, Healthscope Limited announced a proposal under which Healthscope would acquire Symbion Health for a combination of cash and new Healthscope Shares.

Subsequently on 20 June 2007, Symbion Health announced it had received a higher, revised proposal from Healthscope of an implied value of $4.36 and $4.56. This bid received 73.8% acceptances but it failed to reach the required 75% because Symbion's 20% stake shareholder, Primary Healthcare ("Primary"), voted against the deal.

On 8 October 2007, Healthscope announced a revised proposal for Healthscope to acquire the diagnostics businesses of Symbion in return for A$1.6 billion in Healthscope shares. Healthcare would also assume about A$900 million of Symbion debt. Private equity firms Ironbridge Capital and Archer Capital would acquire Symbion's pharmacy services and consumer businesses via a scheme of arrangement, for A$1.15 billion in cash. The revised offer to Symbion shareholders has an implied value of $4.23 to $4.43 per share.

On 30 November 2007 Primary launched an all cash takeover offer for Symbion at $4.10 oer share; below what Healthscope had been offering. In December the independent directors of Symbion recommended shareholders reject the Primary offer, however changed their recommendation when the offer achieved over 50% acceptances. The change in decision was also in the midst of a falling share market which made the $4.10 per share cash offer more attractive.

Gemini Administration Services

Gemini Administration Services Pty Limited ("Gemini") provides services to 91 doctors and operates 9 medical centres mainly in outer metropolitan Perth or regional Western Australia. Gemini also holds 24 contracts to provide medical services at mining sites and rural towns in Western Australia, Tasmania, Queensland and Victoria and contracts directly to provide occupational health services including pre-employment medicals and annual health assessments, many of which involve pathology screening.

On 8 April 2008, IPN announced the acquisition of Gemini for $32.0 million. The acquisition was funded by way of a $32.5 million loan from Sonic.

DCA Group

DCA was Australia's largest diagnostic imaging provider with radiology and other services including mammograms, angiograms and MRI scans. DCA was also the largest for profit provider of healthcare services to the elderly, including aged care residential facilities and retirement villages.

In September 2006, CVC Asia Pacific Limited and CVC Capital Partners (private equity) announced their interest in acquiring DCA. The effective share offer of $3.46 represented 38% premium over the 3-month VWAP prior to date of announcement of the deal. The transaction was completed in December 2006.

National Hearing Centres

National Hearing Centres ("NHC") is headquartered in Melbourne's South Eastern suburbs. NHC provides services in all areas of hearing loss, including rehabilitation, hearing loss prevention and fitting hearing aids. NHC has approximately 45 clinics across Australia. Life Healthcare acquired 100% of NHC in July 2006.

Ex-Affinity Hospitals

On 5 September 2005, Healthscope announced an agreement with Ramsay under which Healthscope will acquire 14 private hospitals for A$490 million. The hospitals were previously acquired by Ramsay under its takeover of Affinity Healthcare Limited (Affinity) (see transaction below) and were required to be divested in accordance with an undertaken given to the Australian Competition and Consumer Commission (ACCC) to address competition issues associated with the takeover. The agreement also carries an exclusive option to acquire the other 5 ex-Affinity hospitals that the ACCC requires Ramsay to divest.

Affinity

On 14 April 2005 Ramsay announced the acquisition of Affinity for total consideration of A$1.428 billion, or A$1.499 billion including transaction costs. At the time, Affinity operated 48 hospitals in metropolitan and regional Australia and 3 hospitals in Indonesia. Affinity had annual revenue of approximately A$1.3 billion and was the largest private hospital operator in Australia. Simultaneous with the acquisition, Ramsay agreed to divest 14 of the acquired hospitals to address competition issues of the ACCC (see transaction above).

Nova Health

Nova Health Limited ("Nova") operates approximately nine private hospitals and provides healthcare services in Victoria and New South Wales. The company's hospitals include Brisbane Waters Private Hospital and Longueville Private Hospital.

On 30 March 2005 the boards of Healthscope and Nova announced a proposal for the two companies to merge, to be effected by way of a takeover offer by Healthscope for all of the outstanding shares in Nova for cash consideration of A$0.30 per share. Nova operates five private hospitals and a day surgery in the states of Queensland and New South Wales through which it provides surgery services including orthopaedics, cardiology, neurosurgery, ophthalmology, plastic surgery and oncology. Combined, the hospital facilities have over 420 beds. The offer valued the equity in Nova at A$72 million. The offer was unanimously recommended by the directors of Nova and was completed on 25 May 2005.

Gribbles

The Gribbles Group Limited ("Gribbles") is a healthcare provider. The company has interests in several diagnostic businesses in Australia and Asia. Gribbles provide human and veterinary pathology testing services and analytical testing services. On 20 October 2004 Healthscope announced a takeover offer for 100% of Gribbles at A$0.60 per share. This offer was later raised to A$0.63 per share, valuing the equity in the company at A$283.6 million. Gribbles had sales revenue of A$276 million in the previously ended financial year, and the acquisition was expected to generate significant synergies.

MIA Group

MIA Group Limited ("MIA") operates clinics providing diagnostic imaging services in Australia. The company's services include radiology (X-ray), ultrasound, mammography, bone densitometry, angiography, MRI, CT and nuclear medicine.

In June 2004, DCA and MIA agreed to merge by way of a scheme of arrangement. Following the merger, DCA became Australia's largest diagnostic imaging provider. The merger valued MIA at $1.02 per share, and included a significant premium due to estimated synergies of approximately $15 million per annum.

Benchmark Group

In May 2004, Ramsay announced an agreement to acquire all of the shares in Benchmark Healthcare Group ("Benchmark") for a cash consideration of A$125 million. Benchmark operates and manages 10 hospitals in Victoria and South Australia, comprising 980 hospital beds and 68 aged care beds. Of the 10 hospitals, four are owned, five are leased and one is managed under contract whereby the owner retains all operational risk. At the time of the acquisition Benchmark had annual revenue of approximately A$200 million. The transaction was settled in July 2004.

PRNZ

PRNZ is the ultimate parent company for ProPharma and Healthcare Logistics. These are two significant businesses that operate in the pharmacy wholesale and healthcare distribution industry in New Zealand. On the 29th of August 2007 Ebos acquired all of the shares in PRNZ at a price of $86.3 million. The acquisition was funded by an offer to each existing Ebos shareholder with the balance being made up of bank debt.

Roystan Hospital

On 13 September 2005, Wakefield Healthcare and Royston Hospital agreed to terms of amalgamation. Royston Hospital Limited is a private company and is the largest provider of private surgical hospital services in the Hawke's Bay region. The terms of the offer were such that Royston would cease to continue as a separate legal entity and Wakefield would continue to exist. Royston shareholders received 0.9531 shares in the amalgamated Wakefield for every one share they held in Royston.

Bay Audiology

Bay Audiology is New Zealand's largest audiology provider and has clinics throughout New Zealand. On 3 October 2005, Abano acquired 70% of Bay Audiology for $21.1 million. The remaining 30 percent continued to be held by Bay's three founding clinical directors. Abano has a call option over the remaining 30% stake, exercisable from 1 June 2010.

Orthotic Centre

The Orthotic Centre is New Zealand's foremost supplier of orthotic services and specialist products with locations in Auckland, Hamilton and Wellington. On 3 September 2005, Abano announced it would acquire 100% of Orthotic Centre (NZ) Limited, through two transactions over the following three years. On 3 October, the first transaction of 70% was acquired for $4.7 million. Abano acquired the remaining 30% in October 2006 for $2.4 million.

Ascot Hospital & Clinics

Ascot Hospital is a purpose built private healthcare facility in Auckland. On 14 April 2005, Integrated Hospitals Limited announced a full takeover offer of $1.53 per ordinary share for Ascot Hospital. Integrated Hospitals Limited held 76.7% prior to the offer.

Bowen Hospital

On 26 July 2002 Wakefield announced an in-principle agreement with the Bowen Hospital Trust to acquire the Bowen Hospital and the site in Crofton Downs, Wellington for $5 million. Bowen Hospital had three surgical theatres and 45 beds. The hospital offered general and specialist surgery and operated a sleep disorders unit in conjunction with the Otago University Wellington School of Medicine. The transaction was completed on 1 April 2003.

GLP Medical Group

Sonic acquired 100% of the GLP Medical Group ("GLP") based in Hamburg, Germany. The expected EBITDA for the 2008/2009 financial year amounts to approximately EUR 3.5 million. The purchase price for GLP medical is based on a prospective EBITDA multiple of approximately 8.6 times, excluding synergies. As part of the transaction, Sonic made two minority investments in GLP Systems GmbH and GLP networks AG, which develop laboratory automation solutions and medical software communication platforms respectively.

Clinical Laboratories of Hawaii

Clinical Laboratories of Hawaii is Hawaii's medical laboratory provider with over 70 locations state-wide and more than 900 professional, technical, and support personnel offering expert analytical and clinical services in every laboratory discipline. Clinical Laboratories of Hawaii has prospective annual revenues of over US$110 million. Sonic acquired 100% of Clinical Laboratories of Hawaii Inc and its associated anatomical pathology practice, Pan Pacific Pathologists for a (debt free) purchase price of US$121 million, which equates to a prospective EBITDA (post synergies) multiple of approximately 6.2 times, after allowing for the net present value of tax deductions for goodwill amortisation over 15 years of US$19 million. US$3 million of the purchase price is subject to earn-out arrangements.

The acquisition was funded in US dollars from Sonic's existing syndicated senior debt facility and expected to be immediately earnings per share accretive.

Labor 28

Sonic Healthcare completed its acquisition of the German Labor 28 to expand its European pathology business. Labor 28 is one of a laboratory group in the Berlin metropolitan area and employs approximately 200 people. Labor 28's purchase price is based on a prospective EBITDA multiple of approximately 8.8 times, excluding synergies, and is expected to achieve an EBITDA of more than EUR 8 million next fiscal year.

Capio Healthcare

Capio UK is the fourth-largest operator of private hospitals in the UK, operating 22 hospitals throughout England. In September 2007, Ramsay Health Care Limited announced it has agreed to acquire Capio for £193m. The acquisition was funded by debt.

Sunrise Laboratories

In August 2007 Sonic Healthcare acquired Sunrise Laboratories, a full service clinical reference laboratory which services the New York City area and has an estimated 6% share of the local market. The offer for the US- based company of $US148 million also included a provision for up to $US20 million to be paid under an earn-out arrangement based on above-market revenue growth and maintenance of EBITDA margin in the year after settlement.

Bioscientia

On 13 August 2007, Sonic Healthcare acquired 100% of Bioscientia. Bioscientia has a network of 15 regional laboratories, several local laboratories within hospitals, and a modern, central facility in Ingelheim. Bioscientia also provides laboratory services to international customers, including hospitals in the Middle East. The purchase price was based on an enterprise value of EUR$190 million and represents a prospective EBITDA multiple of approximately 9.7 times.

American Esoteric Laboratories

American Esoteric Laboratories is a US-based pathology business providing routine and esoteric testing services through laboratories in Tennessee, Texas, Arkansas, Louisiana, Mississippi and Missouri. Sonic Healthcare acquired 100% of American Esoteric Laboratories in December 2006 for US$180 million.

Clinical Pathology Laboratories

CPL is one of the largest independent pathology businesses in the US, with its core market being South West US. Sonic Healthcare acquired 80% of CPL for US$292 million in August 2005.

NOTES

NOTES

ABANO HEALTHCARE GROUP LIMITED

P O Box 106 514

Auckland 1143

Telephone: +64 9 300 1410

Facsimile: +64 9 300 1419

Email: enquiries@abanohealthcare.co.nz

www.abanohealthcare.co.nz