abano healthcare group limited

INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2017

A LEADER IN THE TRANS-TASMAN DENTAL MARKET

Abano Healthcare Group provides an opportunity to invest into the $11-billion trans-Tasman dental market. Listed on the NZX, Abano owns and operates one of the largest and fastest growing dental groups in the region, through its Lumino The Dentists network in New Zealand and Maven Dental Group in Australia.

ABANO HEALTHCARE GROUP LTD INTERIM REPORT 2018

As at 30 November 2017:

One of the largest trans-Tasman dental groups
216 practices across Australia and New Zealand
Approx. $300m in annualised gross revenues

Lumino The Dentists

The largest dental network in New Zealand
117 practices nationwide
Approx. NZ$137m in annualised gross revenues

maven dental GROUP

The second largest dental network in Australia
99 practices nationwide
Approx. A$150m in annualised gross revenues

Team of over 2,220 people, including 807 dentists and dental clinicians

Providing quality dental care and services through more than 1 million patient visits every year

Excludes Ascot Radiology – divestment announced post period end with settlement expected end-February 2018

CONTENTS

HY18 AT A GLANCE

Record half year result in line with guidance

Interim dividend of 16 cents per share

GROWTH OF OUR BUSINESSES

- Acquisition of ten dental practices expected to generate $18 million in annualised gross revenues
- Opened new fully digital and purpose built greenfield Lumino The Dentists practice in Rangiora
- Investment into initiatives to drive same store sales growth and encourage new and repeat patient visits
- Continuation of the rebranding of existing practices in Australia

DELIVERING A WORLD CLASS PATIENT EXPERIENCE

- Rollout of real time, online booking system
- Introduction of Patient Contact Centre for Maven Dental Group
- Further developing initiatives which can help make dentistry more affordable, including interest free payment terms and dental plan options
- Improving Net Promoter Score, showing greater patient satisfaction

INVESTING IN OUR PEOPLE

- Appointment of Dr Fred Calavassy to the new role of trans-Tasman Clinical Director
- Inaugural trans-Tasman Lead Dentist Conference
- Creating safer workplaces through ongoing implementation of systems, processes and training

LEVERAGE TECHNOLOGY

- Rollout of new CRM and analytics systems
- Ongoing investment into digital marketing
- Continued trialling of new clinical equipment

TRANSITION TO SINGLE FOCUS, DENTAL GROUP

- Post Period End: Announced the sale of Ascot Radiology with settlement expected end-February 2018

HY18 FINANCIAL PERFORMANCE

Abano delivered a record half year result for HY18, with a lift in both revenue and underlying earnings.

The company has benefitted from acquisition growth in the dental business and we have seen improving same store sales in both New Zealand and Australia.

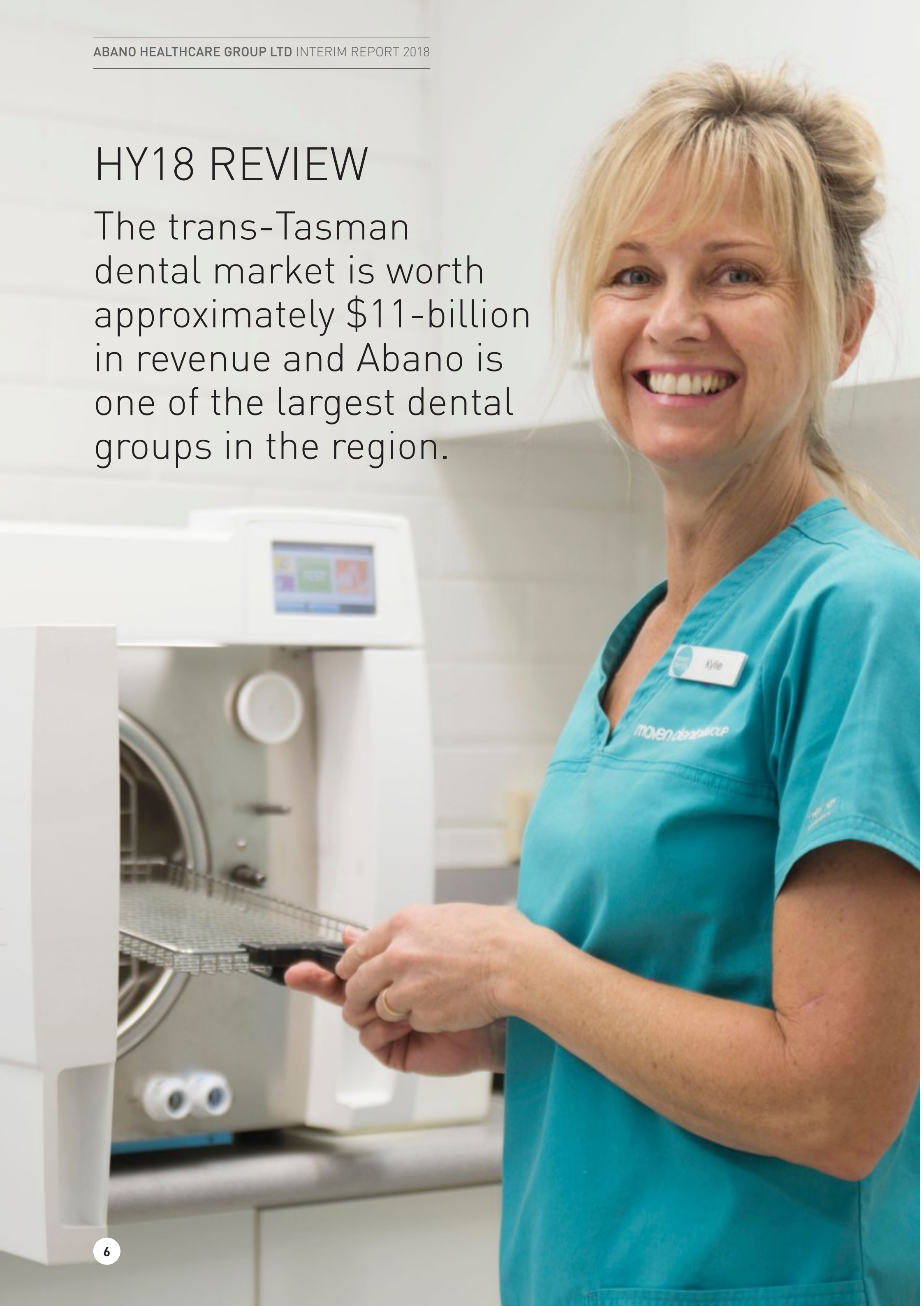
The result is after non-cash expenses including accelerated depreciation relating to the decision to relocate Lumino's largest practice to a new location in Auckland in early 2018 and a $0.2 million loss on sale on the associated divestment of its small non-core laboratory business.

The directors confirmed an interim dividend of 16 cents per share on all shares, including those issued under the recent 1 for 5 rights offer.

GROSS REVENUE	REVENUE	EBITDA	UNDERLYING EBITDA
158.7 MILLION	**133.2 MILLION**	**17.9 MILLION**	**18.3 MILLION**
+14%	**+14%**	**+9%**	**+9%**

NPAT	UNDERLYING NPAT	INTERIM DIVIDEND
6.0 MILLION	**6.7 MILLION**	**16 CENTS PER SHARE**
+2%	**+5%**	

Based on unaudited management accounts.



HY18 REVIEW

The trans-Tasman dental market is worth approximately $11-billion in revenue and Abano is one of the largest dental groups in the region.

ABANO HEALTHCARE GROUP LTD INTERIM REPORT 2018

Our growth strategy is built on five pillars which we believe will make our businesses bigger, stronger and better.

These are:

- Growth of our businesses
- Investment in our people
- Delivering a world class patient experience
- Leveraging technology
- Optimising our earnings

NETWORK EXPANSION

Our growth is primarily through the acquisition of dental practices, as well as selected greenfield openings.

We are already the largest dental group in New Zealand with comprehensive national coverage and a market share of about 15%. However, there is a significant opportunity for us to extend our reach in the Australian market, which is approximately 12 times larger than New Zealand and where we currently have approximately 1.5% market share.

Our acquisition pipeline in Australia remains strong and we are taking advantage of this to increase our acquisition rate above previous years. In the first half of the financial year, we acquired ten practices, expected to generate $18 million in annualised gross revenues (A$11m and NZ$6.3m). In addition, Lumino The Dentists opened a new fully digital and purpose built greenfield practice in Rangiora.

As always, timing of settlement is dependent on a number of factors and several of the larger acquisitions, with a corresponding higher purchase price, settled later in the first half. While incurring the acquisition costs of these practices in the current financial year, their full year contributions will not be realised until FY19. Since the end of November 2017, a further four dental practices have been acquired.

SAME STORE SALES GROWTH

We are also focused on improving the performance of our existing dental practices (measured by same store sales growth) by expanding the services on offer, increasing and maximising existing capacity, increasing clinical days and continuing to invest into branding and marketing.

Initiatives include the rollout of online bookings; the rebranding of existing practices in Australia; the commencement of the new Australian patient contact centre; and the rollout of the new CRM and analytics systems providing greater depth of data with which to manage the business. Early benefits are now starting to be seen with these short and long term initiatives.

During the first half of FY18, Lumino in New Zealand reported positive same store growth of 1.7% (HY17: 0%), despite being adversely impacted by the winter storms and flu in July and a softer school holiday period in October compared to the previous year.

In New Zealand, clinical days increased, although average revenue per dentist declined slightly as expected, as a greater number of younger and less experienced dentists replaced a higher than average number of senior retiring dentists in the previous financial year. A key focus for us is clinical training and development of staff and it is anticipated that the daily revenue rate of these younger dentists will increase over time.

Economic conditions are a key influencer on the dental industry, with non-urgent dental services often considered a discretionary healthcare spend. The macro conditions in the Australian economy remain challenging, which has impacted spending in the dental industry. Recent economic reports indicating spending on almost every discretionary purchase was down in the September quarter, with the lowest growth in household expenditure since 2005[1].

To combat this environment, management are focused on initiatives to encourage new and repeat patient visits. Maven Dental Group is showing improvement with positive same store sales growth for three out of the six months in the first half. Overall, same stores sales for the half year was -1.6% (compared to -5.8% for the first half of FY17 and -4.4% at the end of the FY17 year).

RELOCATION AND OPENING OF FLAGSHIP LUMINO PRACTICE

During the period, a decision was made to relocate Lumino's largest practice in Auckland, to a larger, modern and more accessible location in early 2018.

The relocation will remove the accessibility issue being caused by the construction of the City Rail link in Auckland's CBD, will provide a better patient experience as well as capacity for additional chairs.

[1] www.abs.gov.au/ausstats/abs@.nsf/mf/5206.0

As part of this move, an opportunity arose for Lumino to sell its associated non-core laboratory business to its existing Australian supplier which is looking to establish a presence in New Zealand. This will deliver a faster and improved service for Lumino's patients.

SALE OF ASCOT RADIOLOGY

Ascot Radiology has been a solid performer and for the half year it delivered both revenue and EBITDA growth.

Ascot Radiology was the last remaining non-dental business in our group and there was limited opportunity to add further significant scale to the business. We believe the dental market offers the most opportunity for our company and our shareholders and it has been our primary investment focus for a number of years.

In December 2017, we announced a conditional agreement to sell our 71% shareholding to our radiologist shareholder partners for a total consideration of $17.0 million with settlement expected in late February 2018.

This sale will provide a one-off gain of approximately $2.1 million after costs, which will be reported in the FY18 full year results.

This will complete our transition into a single focus dental group and we will continue our rapid growth, building scale and our share of the $11 billion trans-Tasman dental market.

SHAREHOLDER CHANGES

With our growing presence in the Australian dental market and increasing investor awareness, the sell down by Healthcare Partners, an entity associated with Peter and Anya Hutson and James Reeves, of their entire Abano shareholding in August 2017, was well supported by both New Zealand and Australian institutions.

Since this sell down, we have seen an increase in Abano's share price as well as a lift in the percentage of Australian shareholders, from less than 1% prior to August to now be over 8% of our register as at November 2017.

We are continuing to progress legal proceedings against Healthcare Partners to seek recovery of the significant outstanding unpaid costs in relation to their failed takeover bid.

OUTLOOK

Trading in the second half is expected to continue the momentum seen in the first half. We will continue to focus on building our presence in the trans-Tasman dental market, through dental practice acquisitions, particularly in areas in Australia where we are under-represented, as well as expanding our existing practices and service offering.

Dental margins[2] for the full year are expected to be in line with the previous financial year, despite the increased investments being made into marketing, technology and branding and the same store revenue performance in Australia.

Abano has established and communicated a number of Key Performance Indicators (KPI) for the three years from FY18 to FY20 and the Board remains confident that the company is on track to achieve these.

We are well funded and well positioned to accelerate our growth rate, and we have a clear pathway ahead.

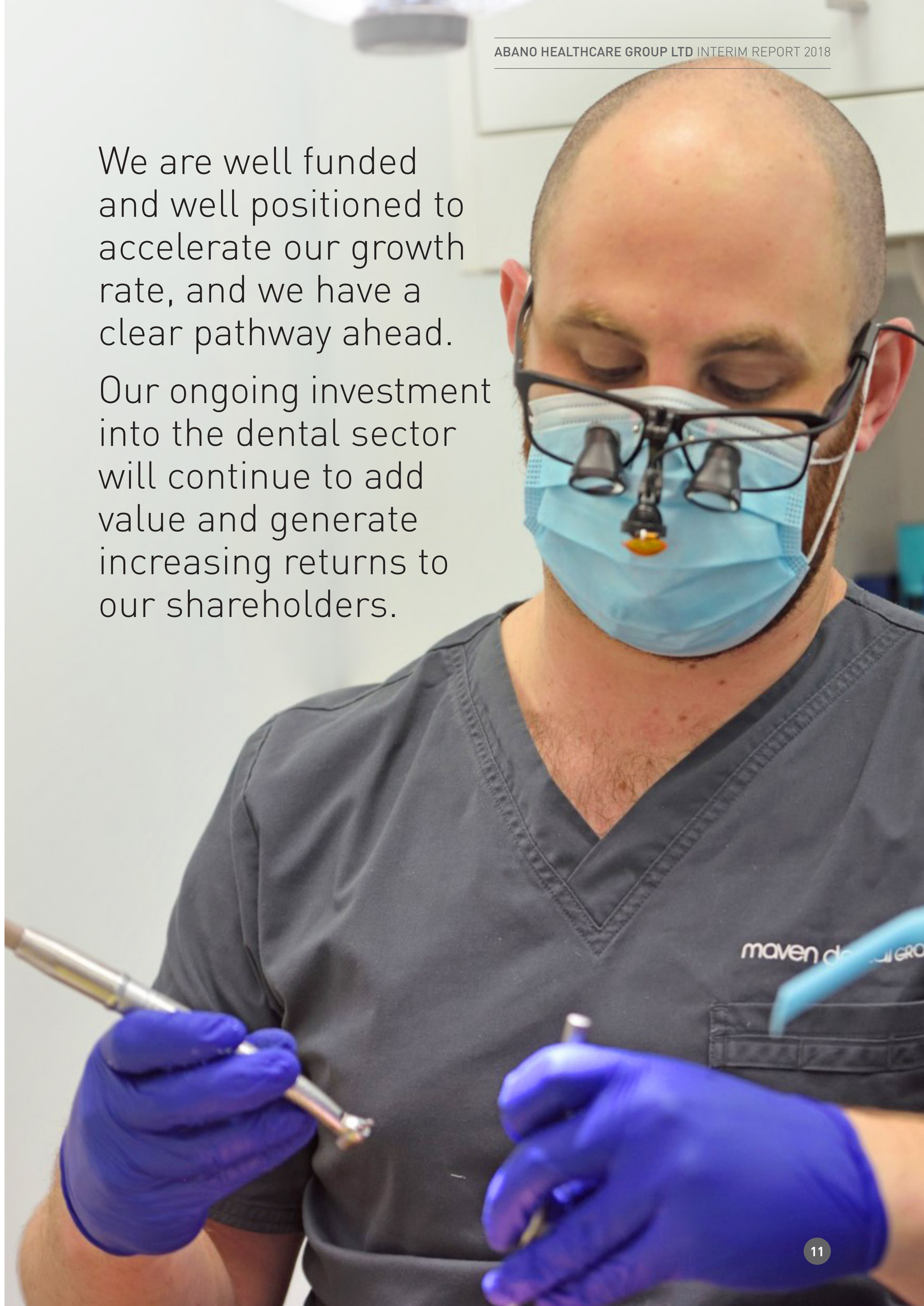
Our ongoing investment into the dental sector will continue to add value and generate increasing returns to our shareholders.

Trevor Janes
Chairman

Richard Keys
CEO

[2] Dental margin is calculated as Underlying EBITDA as a percentage of Gross Revenue.

ABANO HEALTHCARE GROUP LTD INTERIM REPORT 2018



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INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 NOVEMBER 2017

INCOME STATEMENT

For the six months ended 30 November 2017 (unaudited)

	NOTE	NOV 2017 $000	NOV 2016 $000
Revenue		133,213	116,809
Patient consumables and cost of products sold		(19,938)	(17,307)
Employee benefits		(72,820)	(63,161)
Depreciation and amortisation		(5,824)	(5,205)
Occupancy costs		(9,988)	(8,631)
Acquisition and transaction costs		(355)	(346)
Other operating expenses		(13,164)	(11,963)
Other operating income		957	1,066
Operating profit	3	**12,081**	**11,262**
Finance income		81	71
Finance expenses		(2,584)	(2,619)
Fair value amortisation and revaluation of deferred acquisition consideration	9	(88)	(80)
Fair value amortisation of provisions		(16)	(12)
Realised foreign exchange gain/(loss)		19	(16)
Gain/(loss) on sale of business		(188)	-
Profit before income tax		9,305	8,606
Income tax expense		(3,075)	(2,581)
Profit for the period		**6,230**	**6,025**
Attributable to :			
Equity holders of the Company share of profit		**6,001**	**5,874**
Non-controlling interests share of profit/(loss)		229	151
		6,230	**6,025**
Earnings per share (cents)		25.40	27.48

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 November 2017 (unaudited)

	NOV 2017 $000	NOV 2016 $000
Profit for the period	**6,230**	**6,025**
Other comprehensive income		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges, net of tax	(62)	700
Exchange differences on translating foreign operations	3,001	(1,277)
Total comprehensive income for the period	**9,169**	**5,448**
Total comprehensive income attributable to:		
Equity holders of the Company	8,940	5,297
Non-controlling interests	229	151
	9,169	**5,448**

BALANCE SHEET

As at 30 November 2017 (unaudited)

	NOTE	NOV 2017 $000	NOV 2016 $000	MAY 2017 $000
ASSETS				
Non-current assets				
Property, plant and equipment	4	52,967	47,227	48,613
Goodwill	5	216,383	178,386	194,058
Other intangible assets	4	6,707	4,460	5,311
Non-current receivables		2,332	2,490	2,466
Deferred tax asset		3,054	3,021	3,036
Total non-current assets		**281,443**	**235,584**	**253,484**
Current assets				
Cash and cash equivalents		8,906	4,415	7,055
Current trade and other receivables		10,095	7,236	7,688
Inventories		7,278	6,667	6,769
Total current assets		**26,279**	**18,318**	**21,512**
TOTAL ASSETS		**307,722**	**253,902**	**274,996**
EQUITY				
Share capital		81,498	47,545	47,604
Foreign currency translation reserve		(3,074)	(6,147)	(6,075)
Cash flow hedge reserve		(2,918)	(1,783)	(2,856)
Retained earnings		80,600	77,308	78,885
Total equity attributable to equity holders of the Company		**156,106**	**116,923**	**117,558**
Non-controlling interest		729	921	1,001
TOTAL EQUITY		**156,835**	**117,844**	**118,559**
LIABILITIES				
Non-current liabilities				
Borrowings	7	103,945	97,393	110,651
Non-current payables		1,472	1,456	1,428
Deferred tax liabilities		159	223	210
Derivative financial instruments		4,040	2,401	3,815
Deferred acquisition consideration	9	8,886	6,538	8,454
Provisions		703	493	647
Total non-current liabilities		**119,205**	**108,504**	**125,205**
Current liabilities				
Derivative financial instruments		73	110	213
Current income tax liabilities		672	(17)	797
Deferred acquisition consideration		1,983	2,111	2,676
Trade and other payables		28,875	25,155	27,423
Provisions		79	195	123
Total current liabilities		**31,682**	**27,554**	**31,232**
TOTAL LIABILITIES		**150,887**	**136,058**	**156,437**
TOTAL EQUITY AND LIABILITIES		**307,722**	**253,902**	**274,996**

ABANO HEALTHCARE GROUP LTD INTERIM REPORT 2018

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2017 (unaudited)

	NOTE	SHARE CAPITAL $000	TREASURY SHARES $000	FOREIGN EXCHANGE TRANSLATION RESERVE $000	CASH FLOW HEDGE RESERVE $000	RETAINED EARNINGS $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
Balance at 1 June 2016		**46,276**	**(352)**	**(4,870)**	**(2,483)**	**75,681**	**114,252**	**776**	**115,028**
Comprehensive Income									
Profit/(loss) for the period		-	-	-	-	5,874	5,874	151	6,025
Other comprehensive income									
Cash flow hedge movement									
Fair values gains		-	-	-	988	-	988	-	988
Tax liability on fair value gains		-	-	-	(288)	-	(288)	-	(288)
Foreign exchange translation reserve		-	-	(1,277)	-	-	(1,277)	-	(1,277)
Total other comprehensive income		-	-	(1,277)	700	-	(577)	-	(577)
Total comprehensive income		**-**	**-**	**(1,277)**	**700**	**5,874**	**5,297**	**151**	**5,448**
Transactions with owners									
Dividends paid		-	-	-	-	(4,264)	(4,264)	(6)	(4,270)
Dividend reinvestment plan		1,562	-	-	-	-	1,562	-	1,562
Executive compensation expense		59	-	-	-	-	59	-	59
Foreign investor tax credits recognised		-	-	-	-	17	17	-	17
Total transactions with owners		**1,621**	**-**	**-**	**-**	**(4,247)**	**(2,626)**	**(6)**	**(2,632)**
Balance at 30 November 2016		**47,897**	**(352)**	**(6,147)**	**(1,783)**	**77,308**	**116,923**	**921**	**117,844**
Balance at 1 June 2017		**47,956**	**(352)**	**(6,075)**	**(2,856)**	**78,885**	**117,558**	**1,001**	**118,559**
Comprehensive Income									
Profit/(loss) for the period		-	-	-	-	6,001	6,001	229	6,230
Other comprehensive income									
Cash flow hedge movement									
Fair values gains		-	-	-	(85)	-	(85)	-	(85)
Tax liability on fair value gains		-	-	-	23	-	23	-	23
Foreign exchange translation reserve		-	-	3,001	-	-	3,001	-	3,001
Total other comprehensive income		-	-	3,001	(62)	-	2,939	-	2,939
Total comprehensive income		**-**	**-**	**3,001**	**(62)**	**6,001**	**8,940**	**229**	**9,169**
Transactions with owners									
Dividends paid		-	-	-	-	(4,318)	(4,318)	(501)	(4,819)
Renounceable rights issue	8	33,835	-	-	-	-	33,835	-	33,835
Executive compensation expense		59	-	-	-	-	59	-	59
Foreign investor tax credits recognised		-	-	-	-	32	32	-	32
Total transactions with owners		**33,894**	**-**	**-**	**-**	**(4,286)**	**29,608**	**(501)**	**29,107**
Balance at 30 November 2017		**81,850**	**(352)**	**(3,074)**	**(2,918)**	**80,600**	**156,106**	**729**	**156,835**

STATEMENT OF CASH FLOWS

For the six months ended 30 November 2017 (unaudited)

	NOTE	NOV 2017 $000	NOV 2016 $000
Cash flows from operating activities			
Receipts from customers		149,098	130,480
Payments to suppliers and employees		(131,357)	(116,194)
Interest received		140	20
Interest paid		(2,655)	(2,663)
Income tax paid		(3,169)	(3,227)
Net cash generated from operating activities		**12,057**	**8,416**
Cash flows from investing activities			
Sale of property, plant and equipment		62	-
Sale of interest in jointly controlled entities	6	-	32,000
Purchase of property, plant, equipment and intangible assets	4	(8,871)	(5,425)
Purchase of businesses	5	(19,331)	(12,689)
Dividends paid to non-controlling interests		(501)	(6)
Other investing cash flows		41	50
Net cash generated/(used) in investing activities		**(28,600)**	**13,930**
Cash flows from financing activities			
Proceeds from borrowings		26,278	17,020
Repayment of borrowings		(37,187)	(36,616)
Equity raised - renounceable rights issue	8	33,836	1,562
Dividends paid		(4,318)	(4,264)
Net cash generated/(used) in financing activities		**18,609**	**(22,298)**
Net increase in cash held		**2,066**	**48**
Cash at beginning of the period		7,055	4,250
Net increase in cash held		2,066	48
Exchange gain/(loss) on net assets held by foreign subsidiaries		(215)	117
Cash at end of period		**8,906**	**4,415**
Cash comprises:			
Cash at bank		8,906	4,415
		8,906	**4,415**

ABANO HEALTHCARE GROUP LTD INTERIM REPORT 2018

RECONCILIATION OF OPERATING CASH FLOWS

For the six months ended 30 November 2017 (unaudited)

	NOV 2017 $000	NOV 2016 $000
Profit for the period	**6,001**	**5,874**
Non-cash items:		
Depreciation	5,322	4,788
Amortisation of intangible assets	502	417
Recognition of deferred tax asset	48	(283)
Fair value amortisation and revaluation of deferred acquisition consideration	88	80
Fair value amortisation of provisions	16	12
Foreign investor tax credits recognised	32	17
Executive compensation expense	59	59
Share of surplus/(loss) retained by non-controlling interests	229	151
	6,296	**5,241**
Movement in working capital:		
(Increase)/decrease in trade and other receivables	(2,242)	(1,877)
Increase/(decrease) in trade and other payables	1,460	(1,183)
(Increase)/decrease in inventories	135	6
	(647)	**(3,054)**
Items classified as investing activities:		
Realised loss on sale of property, plant and equipment	52	9
Acquisition and divestment costs	355	346
	407	**355**
Net cash flows from operating activities	**12,057**	**8,416**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. STATEMENT OF ACCOUNTING POLICIES

The basis of preparation and the accounting policies used in the preparation of the interim financial statements are consistent with those of the financial statements for the year ended 31 May 2017.

The condensed interim financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 and IAS34: Interim Financial Reporting. These interim financials statements should be read in conjunction with the annual financial statements for the year ended 31 May 2017, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards.

3. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Abano Board of Directors. Management has determined the operating segments based on the reports reviewed by the Board. In addition to GAAP measures, the Board also uses non-GAAP measures to assess the commercial performance of the segments.

The reportable operating segments for the period ended 30 November 2017 have been determined as Dental and Diagnostics.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

3. SEGMENT INFORMATION (Continued)

For the six months ended 30 November 2017	Dental $000	Diagnostics $000	Corporate $000	Segment Total $000
Gross revenue[1]	149,485	9,252	-	158,737
Revenue	123,961	9,252	-	133,213
Earnings before interest, tax, depreciation and amortisation (EBITDA)	17,552	2,124	(1,771)	17,905
Depreciation and amortisation	(4,720)	(1,033)	(71)	(5,824)
Operating profit	12,832	1,091	(1,842)	**12,081**
Net financing costs				(2,607)
Foreign exchange gain				19
Net profit before tax				**9,305**
Acquisition and transaction costs included in EBITDA	355	-	-	355
TOTAL ASSETS	**283,763**	**18,656**	**5,303**	**307,722**
TOTAL LIABILITIES	**126,464**	**3,167**	**21,256**	**150,887**
CAPITAL EXPENDITURE	**8,439**	**323**	**92**	**8,854**

For the six months ended 30 November 2016	Dental $000	Diagnostics $000	Corporate $000	Segment Total $000
Gross revenue[1]	130,479	8,383	-	138,862
Revenue	108,426	8,383	-	116,809
Earnings before interest, tax, depreciation and amortisation (EBITDA)	16,056	1,815	(1,404)	16,467
Depreciation and amortisation	(4,139)	(1,008)	(58)	(5,205)
Operating profit	11,917	807	(1,462)	**11,262**
Net financing costs				(2,640)
Foreign exchange gain				(16)
Net profit before tax				**8,606**
Acquisition and transaction costs included in EBITDA	333	-	13	346
TOTAL ASSETS	**227,209**	**19,925**	**6,785**	**253,919**
TOTAL LIABILITIES	**92,696**	**3,834**	**39,545**	**136,075**
CAPITAL EXPENDITURE	**4,843**	**315**	**52**	**5,210**

[1] Gross revenue includes Australian dental revenues before payment of dentists' commissions.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

4. PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

During the six months to 30 November 2017 the Group acquired property, plant and equipment with a cost of $7.1m (30 November 2016: $3.7m) and intangible assets (excluding goodwill) of $1.7m (30 November 2016: $1.5m).

An additional $1.6m of property, plant and equipment was acquired as part of business acquisitions during the six months (30 November 2016: $2.2m).

5. ACQUISITION OF BUSINESSES

During the six months to 30 November 2017 the Group acquired the following businesses for a total cash consideration of $17.2m and deferred consideration of $1.2m. The payment of deferred consideration is subject to achieving future performance targets which are generally in excess of the current EBITDA. All acquisitions were asset purchases with the Group obtaining 100% control.

	ACQUISITION DATE
Medford House Dental Care (Hamilton)	9 Jun 2017
Jeffcott Dental Clinic (SA)	25 Jul 2017
Village Dental and Implant Centre (SA)	6 Sep 2017
Wanniassa Dental Surgery (ACT)	28 Sep 2017
Redwood Dental (Kerikeri)	29 Sep 2017
Greymouth Dental Centre (Greymouth)	29 Sep 2017
Mullumbimby Dental Centre (NSW)	12 Oct 2017
East Perth Dental Centre (WA)	31 Oct 2017
Nelson Prosthodontics (Nelson)	31 Oct 2017
Bethlehem Dentists (Tauranga)	30 Nov 2017

Summary of the effect of the above acquisitions:

	DENTAL $000
Fair value of net assets acquired:	
Current assets	456
Current liabilities	(81)
Non-current assets	1,612
Non-current liabilities	(105)
Goodwill on acquisition	16,556
Total consideration	**18,438**
Cash paid	17,259
Deferred acquisition consideration	1,179
Total consideration	**18,438**

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

5. ACQUISITION OF BUSINESSES (Continued)

The acquired businesses have contributed revenue and EBITDA to the Group, in the period from their acquisition date to 30 November 2017, of $2.8m and $1.0m respectively.

The revenue and EBITDA to 30 November 2017 had the businesses and assets been acquired at the beginning of the period are estimated at $7.2m and $2.2m for the six months respectively.

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

Measurement period adjustment

The acquisition accounting that was provisionally reported in the financial statements for the year ended 31 May 2017 has been finalised during the period. The adjustment to finalise the provisional values has resulted in a $1.3m increase in Deferred Acquisition Consideration liability and a corresponding $1.3m increase of the Goodwill asset. This adjustment does not impact the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity or Statement of Cash Flows. The comparative balances have been revised to reflect the finalisation of the provisional values.

6. DISPOSAL OF INVESTMENT IN JOINTLY CONTROLLED ENTITIES IN MAY 2016

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

7. BORROWINGS

The Group's net bank debt as at 30 November 2017 was $95.0m (30 November 2016: $93.0m). The Group currently has facilities with ASB Bank of $39.0m ($23.0m utilised) and A$95m (A$73.2m utilised). The Group bank debt is non current.

8. RENOUNCEABLE RIGHTS ISSUE

On 30 August 2017, the Company allotted 4,292,509 ordinary shares at a subscription price of $8.15 per share pursuant to 1:5 renounceable rights offer and shortfall bookbuild. Total capital raised amounted to $35.0m from which was deducted underwriting costs and other direct costs of issue of $1.2m.

9. FAIR VALUE MEASUREMENT

The following table sets out an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair values and are grouped into levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

9. FAIR VALUE MEASUREMENT (Continued)

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
As at 30 November 2017				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	4,113	-	4,113
Measured at amortised cost		-		
Deferred acquisition consideration	-	-	10,869	10,869
As at 30 November 2016				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	2,511	-	2,511
Measured at amortised cost				
Deferred acquisition consideration	-	-	8,649	8,649

There were no transfers between any levels and no change in valuation techniques during the six months ended 30 November 2017 and 2016.

Interest rate swaps are valued by applying discounted cash flow methodology that uses BBSY or BKBM spot rates from forward interest rate curves for the duration of each swap.

Deferred acquisition consideration is valued by applying discounted cash flow methodology that considers the present value of expected payment discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast EBITDA or NPAT, the amount to be paid under each scenario and the probability of each scenario.

The significant unobservable inputs for the period to 30 November 2017 are standard same store growth rates for majority of the practices of 0% to 4.2% (30 November 2016: 0.5% to 5.0%). For a small number of practices same store growth rates are in the range of 6.4% to 65.1%, reflecting expected growth from expansion of these practices. Discount rates of 2.68% to 2.89% (30 November 2016: 2.9% to 3.8%) have been applied. The estimated fair value would increase if the same store revenue growth was higher and the discount rate was lower. Generally a change in the same store annual growth rate is accompanied by a directionally similar change in EBITDA.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)

9. FAIR VALUE MEASUREMENT (Continued)

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

Reconciliation - deferred consideration	NOV 2017 $000	NOV 2016 $000
Opening balance at start of period	11,130	8,340
Deferred consideration paid during period	(1,708)	(638)
Deferred consideration on new acquisitions	1,179	717
Fair value amortisation on deferred acquisitions	181	167
Foreign exchange movement	180	(82)
Provisional deferred consideration revalued against goodwill	-	232
Prior deferred consideration revalued (recognised in Income Statement)	(93)	(87)
Closing balance at end of period	**10,869**	**8,649**
Total fair value movements for the period included in the Income Statement for liabilities held at the end of the reporting period	88	80

10. CONTINGENT LIABILITIES

The Group is party to legal proceedings arising from its operations. The Group establishes provisions for claims and proceedings that constitute a present obligation when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of such obligation can be made. As of 30 November 2017 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

11. SUBSEQUENT EVENTS

Business Acquisitions

The Group has acquired one dental practice since balance date:

Dentalcare Mount Barker (SA) 1 December 2017

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

Sale of Ascot Radiology

On 19 December 2017, the Company entered into an agreement to sell its 71.17% shareholding in Ascot Radiology Limited to its radiologist shareholders for a total consideration of $17.0 million, comprising $8.4 million in shares and $8.6 million repayment of debt.

The sale will result in an estimated gain on sale of $2.1 million, after transaction costs. Settlement is expected to occur on 27 February 2018, subject to usual conditions requiring change of control consents for material contracts and leases. The gain will be recognised in the Group's financial statements for the year ending 31 May 2018.

DIRECTORY

DIRECTORS

Eduard (Ted) van Arkel
Appointed 5 July 2011

Murray Boyte
Appointed 26 February 2015

Danny Chan
Appointed 19 December 2008

Philippa (Pip) Dunphy
Deputy Chairman
Appointed 25 September 2012

Trevor Janes
Chairman
Appointed 23 September 2005

Dr Ginni Mansberg
Appointed 24 August 2016

RISK ASSURANCE AND AUDIT COMMITTEE

Chairman: Pip Dunphy
Danny Chan
Trevor Janes
Dr Ginni Mansberg

GOVERNANCE AND REMUNERATION COMMITTEE

Chairman: Ted van Arkel
Murray Boyte
Trevor Janes

REGISTERED OFFICE AND ADDRESS FOR SERVICE

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

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street, Auckland

BANKERS

ASB Bank Limited
12 Jellicoe Street, Auckland

Commonwealth Bank of Australia
240 Queen Street
Brisbane, Australia

SOLICITORS

Harmos Horton Lusk
Vero Centre
48 Shortland Street, Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland

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