ABANO HEALTHCARE GROUP LIMITED

ANNUAL REPORT 2020

abano healthcare group limited

ABANO HEALTHCARE GROUP ANNUAL REPORT 2020

On behalf of the Board and management of Abano Healthcare Group Limited, we are pleased to present the Annual Report for the year ended 31 May 2020.

Pip Dunphy
Chair

Richard Keys
Chief Executive Officer

13 October 2020

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FY20 SNAPSHOT

OUR BUSINESS	Largest dental group in the trans-Tasman dental region, with more than 225 practices across Australia and New Zealand. Committed to high quality clinical care and patient experience. Two strong brands – Lumino The Dentists in New Zealand and Maven Dental Group in Australia. Over 2,000 high calibre and valued people, including more than 900 clinicians and dentists, focussed on excellent patient care.
STRATEGIC FOCUS	Focus on growing the utilisation of existing practices, with strategy centered around same practice revenue growth, productivity and margin growth. Positive results starting to be seen from initiatives commenced in FY20.
COVID-19	Materially impacted by COVID-19 lockdown and restrictions between March and May 2020. Strong recovery seen coming out of lockdown, with strong same practice revenue growth and year on year increases in clinical days, revenue per clinical day and patient numbers.
NETWORK OPTIMISATION	Review of practices and decision made to close/divest 11 underperforming practices. Reviewing further opportunities to merge/consolidate practices. Support office restructure.
SCHEME OF ARRANGEMENT	During 2019, agreed a Scheme of Arrangement with BGH Capital and Ontario Teachers' Pension Plan at $5.70 per share, which was subsequently terminated in March 2020 due to COVID-19 giving rise to a material adverse change in Abano's business. On 31 August and subsequent to year-end, agreed a new Scheme of Arrangement with BGH Capital and Ontario Teachers' Pension Plan at a headline price of $4.45 per share, which was increased to $4.75 per share on 12 October 2020. The Scheme has pre-agreed price reductions for specified events (capped at 75 cents per share) to increase the certainty of the Scheme settling once approved by shareholders.
CAPITAL MANAGEMENT	During lockdown and prior to year end, agreed amended banking terms with ASB and CBA. The Board has committed to addressing the company's capital structure by end of 2020. If for any reason the Scheme does not settle, it is likely Abano will undertake a capital raise. Due to the impacts of COVID-19 on the business, the final dividend for FY20 has been suspended.
FINANCIAL PERFORMANCE	FY20 results materially impacted by COVID-19. Underlying EBITDA of $17.4m pre-NZ IFRS16 and including wage subsidies of $8.5m.[1] Underlying NLAT of $(1.1)m excludes acquisition & transaction costs of $3.9m and non-cash impairments and accounting adjustments of $43.7m.[1]

[1] More information on non-GAAP measures, being gross revenue, EBITDA and underlying earnings is available on the Abano website at https://www.abano.co.nz/investor-information/non-gaap-financialinformation. Underlying earnings are reported for both Net Profit/Loss After Tax ("NPAT/NLAT", a GAAP compliant measure) and EBITDA and exclude gains/losses arising on sale of businesses, fair value adjustments and impairments, including their tax effect. These are the measures used within the Company to evaluate performance, establish strategic goals and to allocate resources and provide the basis of Abano's dividend policy. A reconciliation of GAAP to underlying measures is provided in the Results Presentation released to the NZX on 31 August 2020.

FY20 KEY GROWTH INITIATIVES

FY20 initiatives were focused on improving the utilisation of existing practices, and driving same practice revenue growth, productivity and margin growth.

DIGITAL STRATEGY

New websites launched in Q3 FY20

Use of digital channels to drive new and existing patients to the networks

Optimised online booking platforms to make it simple for people to find a practice and book online

Expanded reach across multiple digital channels

Search engine optimisation

PATIENT MARKETING

Targeted online patient marketing

New Maven brand positioning

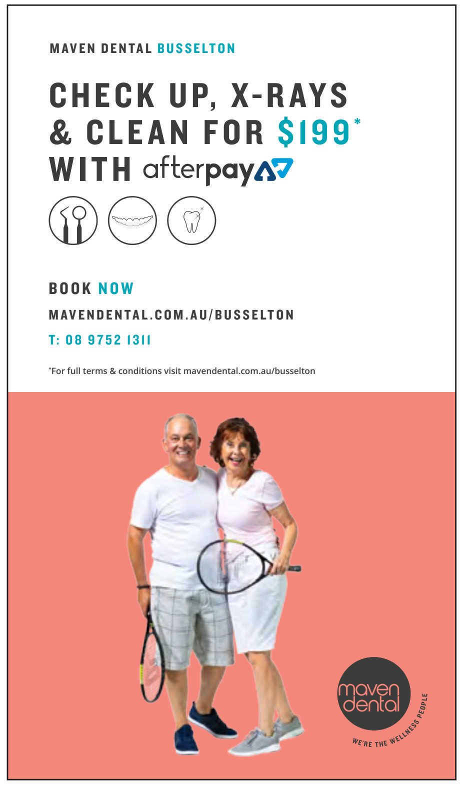
Utilisation of data to enable segmented patient marketing

Email marketing, automated reminders and reactivation campaigns

LUMINO DENTAL PLAN

Continued to rollout the Lumino Dental Plan across the network with 59 eligible practices participating as at end FY20

More than 17,000 members as at end-May 2020; record monthly sign ups in July following marketing campaign, 21,000+ members as at end-September 2020



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DASHBOARDS

Further development of dashboards and use of real time data to drive efficiencies and performance

Developed Regional Managers' dashboards

Further development of Maven Practice Essentials to encapsulate best practice operating rhythms for clinicians

REVENUE PER CLINICAL DAY

(the amount of patient revenue, per clinician, per clinical day)

Encouraging patients to use treatment plans

Improved treatment mix through the use of clinical dashboards

Training and development opportunities to upskill dentists to deliver more complex and higher value treatments

Investment into digital dentistry and clinical technology to deliver services more efficiently and provide an enhanced customer experience

CLINICIAN RECRUITMENT

Forming alliances and relationships with dental schools in NZ and Australia

Recruitment focus on reducing time to hire and time to start for new dentists

Greater number of new hires in FY20

ENGAGING WITH STAFF AND CLINICIANS

Use of webinars and digital channels to regularly communicate and engage with staff and clinicians across the Group

During COVID-19: Regular group-wide emails, interactive webinars and online training opportunities

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CHAIR AND CEO'S REVIEW

THE FY20 FINANCIAL YEAR FOR ABANO WAS DEFINED BY TWO KEY EVENTS – THE CAPITAL REVIEW AND TRANSACTION PROCESSES UNDERTAKEN BY THE BOARD, AND THE IMPACT OF COVID-19 ON OUR BUSINESS.

At the start of the FY20 financial year, we had adapted our growth strategy to focus on improving the utilisation of existing practices and driving same practice revenue growth, productivity and margin growth.

Targeted initiatives and programmes have been undertaken, focused on driving patient visits, increasing revenue per clinical day and the number of clinical days worked and using our technology platforms to support this growth. Many of these are medium term projects and our objective is to grow same practice performance and profitability.

A major focus for the year was on further developing Abano's digital offer, to attract patients and encourage bookings. Activity included new websites, optimised online booking platforms, new Maven brand positioning, utilisation of data to deliver segmented customer marketing and an expanded reach across multiple digital channels.

Many of these digital initiatives were introduced in Q3 FY20 to align with the launch of new websites for both brands. Encouraging results were evident before the COVID-19 lockdowns and, along with patient demand, these initiatives have assisted in the strong rebound in practice performance since re-opening.

We also restructured our support office early in FY20 and took the opportunity to review and optimise our networks, which resulted in the decision to close/divest 11 underperforming practices. While costs were incurred in FY20 in relation to this activity, we expect this to improve margin and profitability going forward. This work is ongoing and we will continue to review our dental networks to improve efficiency.

Responding to COVID-19

COVID-19 was a significant disruption for our people, patients and business. With only emergency dental care able to be provided at Level 3 restrictions and above, the dental industry was forced to close doors for most dental services in both New Zealand and Australia.

We reacted swiftly to the lockdown, with cashflow and cost management a priority. We cancelled or deferred all non-essential spend and engaged with our bankers to amend and extend our banking facilities. We applied for and received Government wage subsidies in both countries, totalling NZ$8.5m for FY20. Other cost saving initatives included engaging with landlords on leases and reducing remuneration for the senior leadership team and directors by 20% for three months.

Staff, clinician and patient health & safety continued to be a priority and clinical best practice infection control protocols for emergency care continued to be used. We were pleased to be able to support our communities by providing teleconsultations and emergency dental care in selected practices throughout New Zealand and Australia.

Our team worked tirelessly to manage the business going into lockdown, ensuring sufficient protective equipment was on-hand and available where needed, delivering emergency care for our communities, communicating with patients and continuing to engage with our teams, and re-booking appointments as we recommenced operations.

The Board and management acknowledge the impact COVID-19 has had on our team members and their families and we thank them for their efforts and support over this challenging period. We also appreciate the support we received from landlords, suppliers and other partners of our business.

Recovery post COVID-19 lockdown

Following the first lockdown, practices commenced re-opening immediately prior to the end of the FY20 financial year, with a recovery in performance as our practices were able to open. This positive trend has continued into the FY21 year.

We have seen very strong same practice performance in New Zealand and a significant uplift in our Australian practices. While some of this had been anticipated, we have been pleased by the increase in patient visits as we rebooked deferred patient appointments, launched marketing campaigns to drive new and existing patient visits and utilised our data to deliver targeted promotion offers and marketing to specific patient groups. We also extended our hours to meet demand whilst continuing our strict infection control protocols to ensure patients were safe when visiting a Maven or Lumino practice including complying with the social distancing constraints in Australia and New Zealand.

We continue to monitor ongoing COVID-19 developments in Australia and New Zealand and the recent restrictions and subsequent re-opening in Melbourne and Auckland are a reminder of the volatility of this COVID-19 environment.

Re-setting our business for the new normal

As it has for many businesses around the globe, we recognise that our trading environment has been significantly disrupted. We have taken steps to re-set our business for this new normal. In addition to the optimisation work being undertaken on our networks, we have also implemented further protocols around procurement and supply chain management to ensure we have access to ongoing stock and supplies of essential items, particularly critical personal protection equipment (PPE).

We also have well practised pandemic protocols which allow us to respond as needed, and have put in place enhanced clinical best practice infection control protocols for the pandemic.

The dental industry is highly sensitive to the COVID-19 environment, and the pandemic has had a material impact on Abano's business and cashflows this year. We believe that the business is on track to make a full recovery from the impacts of COVID-19 over time, however there may be risks of further adverse impacts from COVID-19 in the near term.

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CAPITAL REVIEW AND TRANSACTION PROCESSES

THE CAPITAL REVIEW RESULTED IN A DECISION BY THE BOARD TO RECOMMEND A SALE OF THE COMPANY BY WAY OF A SCHEME OF ARRANGEMENT.

From early in FY20, Abano received various expressions of interest for the acquisition of Abano or businesses owned by Abano, which had the potential to offer strategic opportunities and value to shareholders. The Board evaluated these as part of its strategic review.

A comprehensive competitive process was undertaken over a nearly six-month period, which identified and attracted interest from numerous parties, a small number of which undertook due diligence on Abano's businesses. This enabled the Board to satisfy itself that all relevant options had been identified, risk-assessed, valued and considered.

After a thorough assessment of the options, including the divestment of the individual businesses or the group, the Abano Board recommended a Scheme of Arrangement with a consortium comprising BGH Capital and Ontario Teachers' Pension Plan as providing compelling value for shareholders. Abano and Adams NZ Bidco Limited (Bidco) (a company associated with the consortium) entered into a Scheme Implementation Agreement on 11 November 2019.

The original Scheme included a customary cancellation right for Bidco should a "material adverse change" occur. On 29 March 2020, after Abano shareholder approval was obtained to implement the Scheme, Abano agreed with Bidco that a "material adverse change" had occurred due to the impacts of COVID-19 on Abano's business. As a result, Bidco terminated the Scheme Implementation Agreement for the original Scheme.

Following this termination, the Board evaluated several options to address the impact of COVID-19 on Abano's capital structure, including proposals to acquire Abano or its businesses and a range of alternative capital raising options. As a result of this evaluation, Abano entered into a new Scheme Implementation Agreement with Bidco on 31 August 2020 under which Bidco proposed to acquire all of the shares in Abano by way of Scheme of Arrangement for a headline Scheme price of $4.45 in cash per share (subject to no consideration adjustment events occurring).

On 12 October, Abano announced that the Independent Adviser, Calibre Partners, had advised Abano that it had updated its draft valuation, to take account of Abano's actual trading results to end-September 2020, Abano's recently updated FY21 forecast, the latest risk free rates and CPI forecasts published by the New Zealand Treasury on 7 October 2020, and Abano's balance sheet as at 30 September 2020. This meant Bidco's headline price of $4.45 for each Abano share would be below the low point of Calibre's draft valuation range for Abano shares.

Abano notified Bidco of these circumstances and, following consultation, Bidco agreed to increase the headline Scheme price from $4.45 to $4.75 per Abano share. The increased headline Scheme price is within Calibre's draft valuation range for Abano shares. Accordingly, the Scheme proposal remains the Board's preferred option.

The new Scheme proposal excludes the right of termination should a material adverse change occur, providing shareholders with a higher degree of certainty that, if they approve the Scheme, the Scheme will complete. Instead of a material adverse change clause, the Board has agreed a series of pricing adjustments. These consideration adjustments contemplate a number of potential adverse events that could occur between the date of the new Scheme Implementation Agreement and settlement of the Scheme and quantify those impacts on the price shareholders will receive should an event occur.

After carefully considering the allocation of risks between shareholders and Bidco under the new proposal, and all available alternatives, the Board unanimously recommended the new Scheme to shareholders.[2]

The Scheme is conditional on shareholder approval at a special meeting which is expected to be held in November 2020. Further information will be provided in a Scheme Booklet, which will include a Notice of Meeting and Independent Adviser's Report, to be sent to shareholders by Abano prior to the special meeting.

Subject to receiving shareholder approval, and satisfaction of other conditions, the Scheme is currently expected to be implemented by the end of December 2020.

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[2] The Board's recommendation is subject to there being no superior proposal and the price of $4.75 per Abano share falling within the final valuation range to be determined by Calibre Partners, who has been commissioned to provide an independent adviser's report on the merits of the Scheme. The directors do not intend to change their recommendation and/or vote against the Scheme if, prior to the special meeting to vote on the Scheme, a consideration adjustment event results in a reduction such that the Scheme price falls below the independent adviser's valuation range. However, they do reserve their right to do so if the independent adviser's valuation range for the Abano shares changes for any other reason and, after that change, the Scheme price is below the valuation range.

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FY20 FINANCIAL PERFORMANCE

$millions	FY20	FY20 Pre-IFRS 16	FY19
Gross Revenue[3]	295.5	295.5	338.9
Revenue	244.1	244.1	279.3
EBITDA[3]	28.4	13.1	32.7
Add back: Acquisition and transaction costs	4.3	4.3	1.0
Underlying EBITDA[3]	32.7	17.4	33.7
NPAT/(NLAT)	**(48.7)**	**(46.9)**	**7.6**
Add back: Impairments, accounting adjustments, fair value movements and transaction costs including tax effect	47.6	47.6	3.3
Underlying NPAT/(NLAT)[3]	(1.1)	0.7	10.9

The financial results for FY20 reflect the significant impact of COVID-19 on the business in the final quarter of the financial year with almost no revenue in April and an initial recovery from late-May as practices began to re-open. This resulted in a gross revenue reduction of approximately $44m compared to the the same period in the prior year, partially offset by $8.5m in Government wage subsidies.

Prior to the COVID-19 lockdowns, Lumino was tracking at +0.5% same practice revenue growth for the nine months to end-February 2020, while Maven was at -2.0%. For the first four months of the FY21 year, we have seen a strong rebound with Lumino same practice revenue up 11% compared to the same period last year and Maven up 3%. This includes the impact of the practice closures in Auckland and in Melbourne due to the resurgence of COVID-19.

For the twelve months to 31 May 2020, Abano reported gross revenue of $295.5m, earnings before interest, tax, depreciation and amortisation (EBITDA) of $28.4m and a net loss after tax of $(48.7)m which includes non-cash impairments of $(45.5)m.

The underlying net loss after tax of $(1.1)m excludes after-tax acquisition & transaction costs of $3.9m, non-cash impairments of $45.5m, a finance charge of $3.7m and positive fair value movements of $5.5m.

[3] More information on non-GAAP measures, being gross revenue, EBITDA and underlying earnings is available on the Abano website at https://www.abano.co.nz/investor-information/non-gaap-financial-information. Underlying earnings are reported for both Net Profit/Loss After Tax ("NPAT/NLAT", a GAAP compliant measure) and EBITDA and exclude gains/losses arising on sale of businesses, fair value adjustments and impairments, including their tax effect. These are the measures used within the Company to evaluate performance, establish strategic goals and to allocate resources and provide the basis of Abano's dividend policy. A reconciliation of GAAP to underlying measures is provided in the Results Presentation released to the NZX on 31 August 2020.

The FY20 reported results include the impact of NZ IFRS 16 Leases, which Abano adopted from 1 June 2019. While the cashflow and contractual liabilities have not changed, this has the accounting effect of reducing occupancy costs and increasing depreciation and finance expenses.

On a like for like basis, excluding NZ IFRS 16 accounting adjustments, EBITDA was $13.1m, Underlying EBITDA was $17.4m and Underlying Net Profit After Tax was $0.7m.

The impact of COVID-19 and the period of closures was reflected in lower margins with Lumino reporting a 6.9% margin for the year and Maven a 7.4% margin.

All non-essential capital expenditure was deferred during the COVID-19 lockdown, with a resulting decrease in spend to $7.1m for the year.

Net drawn bank debt as at 31 May 2020 was $134.5m with total facilities of approximately $169m[4]. Abano agreed amended banking terms in May 2020 which included an extension of all facilities by 12 months, with maturity dates now between March 2022 and July 2023, and financial covenant relief through to November 2021. The pricing on the banking facilities has increased, reflecting the tenure extension and financial covenant relief, with pricing and facility review events being assessed by reference to progress against a capital structure transaction that the Group elects to pursue.

The Board remains focused on prudent capital management and preserving cash. Due to the impacts of COVID-19 on the business, the final dividend for FY20 was suspended.

FY21 UPDATE AND OUTLOOK

Abano has recovered strongly since the first lockdown due to a combination of deferred demand from the lockdown period, clinicians taking less leave as a result of COVID-19, as well as record numbers of new patients and strong existing patient numbers visiting Abano's dental practices, in part due to Abano's digital marketing campaigns.

While performance has been positive to date, we remain cautious about the near term outlook for Abano, with COVID-19 likely to continue to create volatility and risks during FY21, as seen recently with the reintroduction and subsequent lifting of restrictions in Auckland and Victoria. We have limited exposure in the affected areas of Victoria that were subject to an extended lockdown period, and our practices in Auckland were re-opened after two and a half weeks as restrictions were eased and have re-commenced offering a full range of dental services.

[4] AUD:NZD 0.9342 as at end-May 2020

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Despite the negative impact of these latest COVID-19 restrictions, both networks have reported strong same practice revenue growth for the FY21 financial year to date (1 June to 30 September 2020).

For the first four months of FY21, unaudited Group gross revenue was $124.6m, up 9% on the prior comparative period, with Underlying EBITDA of $14.7m (pre-NZ IFRS 16) plus net Government wage subsidies of $10.6m, totalling $25.3m.

Lumino has reported +11% same practice revenue growth compared to the prior comparative period. Revenue growth of +18% across June, July and September was offset by a revenue decline of -8% in August as a result of the almost three week COVID-19 restrictions on dental services in Auckland. The impact on revenue of the Auckland shutdown in August has largely been offset by higher actual revenue in September.

Maven same practice revenue was up +3% for the four-month period, with Australian performance continuing to be impacted by COVID-19 restrictions, both in clinical practice, particularly for specialist clinicians, and due to border restrictions making it difficult to recruit and for staff movements out of state.

New and existing patient numbers for the FY21 year to date are 8% up on the prior comparative period, with almost 46,000 new patients in the four month period, a 10% increase on the prior year. Appointments were also up across the Group, with targeted marketing campaigns driving website traffic. The Lumino Dental Plan continues to be seen as a valuable offer with more than 21,000 New Zealanders now signed up. October forward bookings for both Maven and Lumino are also above prior period numbers.

Abano's latest forecast, completed during September 2020, is for FY21 Underlying EBITDA of $32.0m (pre-NZ IFRS 16), plus Government wage subsidies of $10.2m, totalling $42.2m. This is based on the first quarter actual results to 31 August 2020, forward bookings and projections for the remainder of the financial year. The Board recognises that the future economic environment remains uncertain, and that Abano's trading in future months may not be reflective of the first few months of the financial year.

The Board believes that the business is on track to make a full recovery from the impacts of COVID-19 over time, however there may be risks of further adverse impacts from COVID-19 in the near term. Abano's strategic focus and key initiatives for FY21 are centered on same practice revenue growth, margin improvement and growing the profitability of the business.

Our goal remains to be the leading oral healthcare provider in the region, delivering excellent patient experience and clinical care. We remain focused on our recovery and on realising the potential of Abano, our network and our people.

Pip Dunphy
Chair

Richard Keys
Chief Executive Officer

SAME PRACTICE **REVENUE GROWTH**

- Drive new and existing patient visits through practice and patient management and engagement
- Increase clinical days/hours per day to provide more appointment availability

OPTIMAL WORKFORCE

- Drive revenue per clinical day
- Recruitment and retention
- Succession planning for lead dentists
- Best practice clinical and infection control protocols
- Engaging with staff and clinicians

PROFITABLE AND **EFFICIENT** ORGANISATIONAL STRUCTURE

- Improve profitability and margin
- Optimisation of existing networks and practices
- Cashflow generation and cost management
- Address capital structure needs

KEY INITIATIVES IN FY21

- Improve clinician and chair utilisation
- Focus on recruitment to build clinical days and appointment availability
- Succession planning to manage retirement and replacement of lead/senior dentists
- Training and development opportunities to upskill staff and clinicians
- Streamline the HR and scheduling functions to deliver efficiencies
- Optimisation plan creating leaner and more efficient networks
- Leverage the new digital platform now in place
- Targeted digital marketing to drive new and existing patient bookings
- Promotion of the Lumino Dental Plan
- Maintain focus on clinical excellence
- Promotion of the Maven and Lumino brands

THERE'S MORE TO SAY AFTER R U OK?

2020 has been a challenging year for everyone and circumstances have made it even more important for us all to stay connected and, for those who are able, to be willing to support those around us. This year, more than any other in recent times, the question "R U OK?" is so important, as is knowing what to say when someone says they're not OK.

The Maven Dental Group team lives the R U OK? message every day, through our "We take the time to care" value. Our Maven practices were invited to join in on R U OKAY day, to 'paint their practice yellow' and start a conversation that has the potential to change a life.

Online coffee catchups were organised for those teams still working remotely and an online wellbeing seminar was also held, with teams invited to join for a discussion on mental health and wellbeing, with the aim of breaking down the stigma associated with this topic.

"Checking-in on each other and reaching out for support is at the core of our culture at Maven. You don't have to be an expert to keep the conversation going when someone says they're not OK. By knowing what to say, you can help someone feel supported and access appropriate help long before they're in crisis, which can make a really positive difference to their life."
- Chris Williams, GM Australia

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GOVERNANCE AND LEADERSHIP

Board of Directors

PIP DUNPHY
Independent Chair
Appointed 25 September 2012

MURRAY BOYTE
Independent Deputy Chair
Appointed 26 February 2015

DR TRACEY BATTEN
Independent Director
Appointed 23 May 2018

DR GINNI MANSBERG
Independent Director
Appointed 24 August 2016

MIKE SCHUBERT
Independent Director
Appointed 21 May 2020

To view profiles of individual board members, visit
https://www.abano.co.nz/our-company/board-of-directors/

Leadership Team

RICHARD KEYS
Chief Executive Officer

- Joined Abano in 2002 and was appointed CEO in 2015, after previous roles as CFO and COO for the group
- Experienced senior executive, Member of the NZX Markets Disciplinary Tribunal, Chartered Accountant and a Chartered Member of the Institute of Directors

RHYS CLARK
Chief Financial Officer

- Joined Abano in 2019 as CFO
- Responsible for oversight of Abano's finance function, as well as supporting the CEO in executing the strategy for the group

DENNIS SURLAN
Chief Operating Officer

- Appointed to the new role of COO in 2018
- Based in Sydney, Australia
- Has oversight of all operational matters for Abano's two dental networks

DR FRED CALAVASSY
Clinical Director

- A highly passionate dentist who sold his practice into Maven Dental Group in 2012
- Appointed Clinical Director in 2017 after holding a number of clinical advisory roles within the group

BRIDGET O'SHANNESSEY
Acting GM People & Capability

- Commenced 25 June 2020
- Highly experienced Human Resource practitioner, with both national and international experience

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DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Group as at 31 May 2020 and their financial performance and cash flows for the year ended on that date.

The directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied (except for impairment testing, refer note 10) and supported by reasonable judgements and estimates and all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

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

The directors present the financial statements of Abano Healthcare Group Limited, set out on pages 29 to 68, for the year ended 31 May 2020.

The financial statements presented on the following pages were authorised for issue on 31 August 2020.

For and on behalf of the Board

Philippa Dunphy
CHAIR

Michael Schubert
CHAIR, RISK ASSURANCE AND AUDIT COMMITTEE

Independent auditor's report

To the shareholders of Abano Healthcare Group Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 May 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the basis of preparation and the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Abano Healthcare Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 May 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carried out other services for the Group in the areas of agreed upon procedures on a potential transaction and vote count procedures at a Special Shareholders' meeting. The provision of these other services has not impaired our independence as auditor of the Group.

Material uncertainty related to going concern

We draw attention to the going concern note within the basis of preparation section of the consolidated financial statements which describes the need for the Group to address its capital structure and execute the plan as presented to the bank. The Group has entered into a Scheme Implementation Agreement (scheme), where Adams NZ Bidco Limited will acquire 100% of the fully paid shares in Abano Healthcare Group Limited. This scheme is subject to satisfying a number of conditions, the outcome of which is uncertain, including obtaining approval of the Company's shareholders. If these conditions are not met, and approval for the scheme is not received, the Group will need to pursue other capital structure transactions. These conditions, along with other matters as set forth in the going concern note, indicate the existence of a material uncertainty that may cast

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significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Description of the key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment The carrying amount of goodwill as at 31 May 2020 amounted to $211.2 million (2019: $251.3 million). An impairment charge of $41.0 million of goodwill (2019: $2.6 million) was recognised during the year. This was an area of focus for the audit due to the significance of the carrying value of goodwill, the inherent judgement involved in performing an impairment assessment and the inherent uncertainty of both the impact of COVID-19 and the forecast industry decline in Australia. Goodwill has been allocated to individual cash generating units (CGUs) which are still in an earnout period (DAC CGUs), with the remainder of goodwill being allocated and tested at a country portfolio level (non-DAC CGUs). The Group prepared discounted cash flow models to assess the recoverable amount of both DAC CGUs and non-DAC CGUs on a Value-In-Use (VIU) basis. In instances where impairment was identified using a VIU, the fair value less cost of disposal (FVLCOD) was also calculated and the recoverable amount of these CGUs were based on the higher of VIU and FVLCOD. Key VIU assumptions include: • Earnings before interest, tax, depreciation and amortisation (EBITDA) growth rates; • Discount rates; and • Terminal growth rates. Key FVLCOD assumptions include: • Maintainable earnings; and • Enterprise Value (EV)/EBITDA multiples.	We performed the following audit procedures in relation to the goodwill impairment assessments: • considered the appropriateness of the allocation of goodwill to CGUs; • held discussions with management and understood the processes undertaken and basis for determining the key assumptions in preparing the impairment assessments; • considered whether the methodologies applied were appropriate; • gained an understanding of the impact of COVID-19 on the Group's performance, and forecast outlook for the industry and the strategic direction of the business; and • performed lookback procedures, comparing actual results achieved against forecasts and considered the impact on our assessment of forecast cash flows. In relation to the recoverable amounts determined using VIU, we performed the following: • tested the mathematical accuracy of the VIU calculations; and • engaged our auditor's valuation expert to assist us to: ○ assess and challenge the reasonableness of key assumptions, including EBITDA growth rates, discount rates and terminal growth rates, with reference to external market evidence;

Description of the key audit matter	How our audit addressed the key audit matter
In respect of the Australian DAC CGUs, an impairment of \$5.9 million relating to goodwill was recorded as a result of individual DAC CGU assessments. In respect of the Australian non-DAC CGU, an impairment of \$27.5 million relating to goodwill was recorded. In respect of the New Zealand DAC CGUs, an impairment of \$7.6 million was recorded as a result of individual DAC CGU assessments. In relation to the New Zealand non-DAC CGU, whilst no impairment was recorded, any adverse change in assumptions will result in an impairment. Refer to note 10 of the consolidated financial statements for further information.	○ assess and challenge the impact of COVID-19 on forecast earnings; and ○ consider the reasonableness and the basis of support office cost allocations. In relation to the recoverable amounts determined by management using FVLCOD, in conjunction with our auditor's valuation expert we: • evaluated the reasonableness of maintainable earnings, with reference to historic performance and challenged whether the impact of COVID-19 had been appropriately reflected; and • evaluated EV/EBITDA multiples with reference to comparable transactions and benchmarks. In addition, and in conjunction with our auditor's valuation expert, we developed independent VIU and FVLCOD point estimates based on our independent assessment of key assumptions which we developed with reference to historical performance, industry and other external market evidence where relevant. Whilst certain of our assumed inputs were different to those used by management, our independent point estimates supported the amount of impairment recognised for the respective CGUs. We also considered the appropriateness of disclosures made.
Valuation of Deferred Acquisition Consideration The Group has a \$3.3 million Deferred Acquisition Consideration (DAC) liability as at 31 May 2020 comprising: • fixed retention amounts payable to the vendors should the dental practices achieve base EBITDA, net profit after tax (NPAT) or revenue over a prescribed period; and • earn-outs which are management's estimate of additional amounts payable to the vendors based on the acquired practices' future performance in excess of the base EBITDA, NPAT or revenue over the prescribed period.	We performed the following audit procedures: • obtained the calculations performed by management and held discussions with management to understand the basis of determining key assumptions used in the calculations and the controls over determining the DAC liability; • tested the mathematical accuracy of the calculations; • performed lookback procedures and assessed management's ability to forecast accurately;

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Description of the key audit matter	How our audit addressed the key audit matter
During the current year, \$5.6 million of the DAC liability was released to the income statement as a result of the expected decline in practices' future performance, which includes post-COVID-19 expected performance trends. This was considered an area of focus and key audit matter for the audit due to the complexity of the calculation of the DAC liability as it requires management to estimate the future performance of each dental practice at acquisition date and at each subsequent period end over the prescribed period, including allowing for the estimated impact of COVID-19 on the assumptions. Refer to notes 8 and 13 of the consolidated financial statements for further information.	• set our own expectation of the DAC liability based on our assessment of forecast earnings and performance over the prescribed period. Our independent estimate was based on actual historical results, as well as external market evidence and market information benchmarking where relevant. We compared this amount with management's estimate and investigated significant differences; • checked that the movements in the DAC liability since the prior year are supported by the changes in the expected performance of the practices; and • for DAC liabilities that have been settled during the year, we checked that the calculation of the settlement amount was consistent with the earn-out formula or retention amount per the contractual terms of the acquisition agreement, and agreed the settlement paid to the bank statement.
Adoption of NZ IFRS 16 Leases The Group adopted NZ IFRS 16 *Leases* on 1 June 2019. The new standard resulted in the recognition of the majority of the Group's leases in the consolidated balance sheet, where the Group is the lessee. On the date of adoption, a right-of use asset of \$91.7 million and a lease liability of \$101.4 million were recognised by the Group. Several judgements and estimates have been made by management in establishing these adoption balances. These include: • incremental borrowing rates at the time of adoption; • consideration of variable lease payments; • lease terms, including any rights of renewal expected to be exercised; and • the application of practical expedients in respect of low value assets and short-term lease exemptions. This was considered an area of focus and key audit matter for the audit due to the magnitude	We performed the following audit procedures: • held discussions with management to understand the implementation process, including the basis for judgements and estimates used in the calculation of adoption balances; • obtained an understanding of the practical expedients applied and considered the appropriateness of applying these expedients based on what is permitted in the standard; • checked assumptions used to determine the lease term, including rights of renewal, and assessed whether they were supported by past practice and current business plans; • checked assumptions used to assess variability in lease payments and how it is applied in the calculation; • performed testing, on a sample basis, of the accuracy of information included in the

Description of the key audit matter	How our audit addressed the key audit matter
of the balance recognised on adoption of the new standard, the number of leases involved, and significant effort required during the audit. Refer to note 26 of the consolidated financial statements for further information.	calculations by comparing the inputs to the terms in the underlying lease contracts; • tested completeness of the identified lease contracts by checking that leased practices and other major assets were included in the calculation; • performed a reasonableness test on the right-of-use asset; • recalculated the lease liability for individual leases on a sample basis; • engaged our internal valuations expert to determine an independent estimate of the incremental borrowing rate and compared this against management's rates; and • considered the appropriateness of disclosures in the financial statements.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Overall Group materiality: $1,100,000, which represents approximately 0.45% of total revenue.

We chose revenue as the benchmark for our materiality as we consider this is an appropriate, and more stable, measure of performance of the Group than net profit or loss.

As reported above, we have three key audit matters, being:

- Goodwill impairment assessment
- Valuation of Deferred Acquisition Consideration
- Adoption of NZ IFRS 16 *Leases*

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing. Prior to the date of this report, the other information we have received was limited to the Additional Statutory Information and Corporate Governance information. The additional other information to be included in the annual report will be made available to us after the date of this report.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

pwc

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
31 August 2020

Auckland

ABANO HEALTHCARE GROUP ANNUAL REPORT 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 May 2020

	NOTE	2020 $000	2019 $000
Revenue	4	244,115	279,252
Patient consumables and cost of products sold		(39,317)	(41,852)
Employee benefits		(151,408)	(156,182)
Depreciation and amortisation	26	(23,535)	(11,764)
Occupancy costs	26	(7,224)	(22,243)
Acquisition and transaction costs	5	(4,274)	(988)
Other operating expenses	5	(24,403)	(26,565)
Other operating income	6	10,881	1,269
Operating profit	1	**4,835**	**20,927**
Finance income	7	59	92
Finance expenses	7/26	(16,613)	(5,958)
Fair value movements	7	5,532	581
Foreign exchange (loss)/gain		(68)	(289)
Practice partnering scheme - profit share	22	(288)	(346)
Loss on sale of business		(28)	-
Impairment of other assets	18/26	(4,516)	(240)
Impairment of goodwill	10	(40,995)	(2,631)
Profit/(loss) before income tax		**(52,082)**	**12,136**
Income tax benefit/(expense)	16	3,366	(4,475)
Profit/(loss) for the year		**(48,716)**	**7,661**
Attributable to :			
Equity holders of the Company share of profit/(loss)		**(48,731)**	**7,618**
Non-controlling interests share of profit		15	43
		(48,716)	**7,661**
Earnings per share, basic and diluted (cents)	2	(185.59)	29.23

Refer to note 26 for the impact of NZ IFRS 16 Leases.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2020

	2020 $000	2019 $000
Profit/(loss) for the year	(48,716)	7,661
Other comprehensive income		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges, net of tax	(2,104)	(3,474)
Exchange differences on translating foreign operations	468	(1,464)
Total comprehensive income/(loss) for the year	**(50,352)**	**2,723**
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	(50,367)	2,680
Non-controlling interests	15	43
	(50,352)	**2,723**

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 17.

CONSOLIDATED BALANCE SHEET

As at 31 May 2020

	NOTE	2020 $000	2019 $000
ASSETS			
Current assets			
Cash and cash equivalents		15,972	3,132
Trade and other receivables	20	8,894	9,337
Contract assets	4	3,914	3,386
Inventories	21	7,227	8,254
Current income tax asset		2,334	734
Total current assets		**38,341**	**24,843**
Non-current assets			
Property, plant and equipment	18	46,883	53,108
Right-of-use assets	26	82,784	-
Intangible assets	19	9,883	10,881
Goodwill	10	211,220	251,266
Other receivables	20	893	982
Deferred tax asset	17	11,098	3,740
Total non-current assets		**362,761**	**319,977**
TOTAL ASSETS		**401,102**	**344,820**
LIABILITIES			
Current liabilities			
Trade and other payables	22	33,106	28,051
Contract liabilities	4	3,889	3,379
Current income tax liabilities		-	269
Lease liabilities	26	14,260	-
Derivative financial instruments	14	180	222
Deferred acquisition consideration	13	1,358	1,275
Provisions	23	174	94
Total current liabilities		**52,967**	**33,290**
Non-current liabilities			
Borrowings	12	154,666	137,733
Lease liabilities	26	81,365	-
Other payables	22	2,079	2,177
Derivative financial instruments	14	11,175	8,170
Deferred acquisition consideration	13	1,953	7,995
Provisions	23	1,226	736
Total non-current liabilities		**252,464**	**156,811**
TOTAL LIABILITIES		**305,431**	**190,101**
NET ASSETS		**95,671**	**154,719**
EQUITY			
Share capital	11	85,381	85,014
Foreign currency translation reserve		(5,247)	(5,715)
Cash flow hedge reserve		(8,053)	(5,949)
Retained earnings		23,566	81,323
Total equity attributable to equity holders of the Company		**95,647**	**154,673**
Non-controlling interest		24	46
TOTAL EQUITY		**95,671**	**154,719**

Refer to note 26 for the impact of NZ IFRS 16 Leases.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2020

	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 2018		**82,946**	**(352)**	**(4,251)**	**(2,475)**	**83,083**	**158,951**	**37**	**158,988**
Profit for the year		-	-	-	-	7,618	7,618	43	7,661
Other comprehensive income		-	-	(1,464)	(3,474)	-	(4,938)	-	(4,938)
Total comprehensive income		-	-	(1,464)	(3,474)	7,618	2,680	43	2,723
Transactions with owners									
Dividends paid	3	-	-	-	-	(9,559)	(9,559)	(34)	(9,593)
Dividend reinvestment plan	3/11	2,420	-	-	-	-	2,420	-	2,420
2015 share scheme - settlement of scheme and transfer of shares from treasury stock		(352)	352	-	-	-	-	-	-
Foreign investor tax credits recognised		-	-	-	-	181	181	-	181
Total transactions with owners		2,068	352	-	-	(9,378)	(6,958)	(34)	(6,992)
Balance at 31 May 2019		**85,014**	**-**	**(5,715)**	**(5,949)**	**81,323**	**154,673**	**46**	**154,719**
Balance at 31 May 2019		**85,014**	**-**	**(5,715)**	**(5,949)**	**81,323**	**154,673**	**46**	**154,719**
Change in accounting policy	26	-	-	-	-	(6,931)	(6,931)	-	(6,931)
Restated total equity at 1 June 2019		**85,014**	**-**	**(5,715)**	**(5,949)**	**74,392**	**147,742**	**46**	**147,788**
Profit/(loss) for the year		-	-	-	-	(48,731)	(48,731)	15	(48,716)
Other comprehensive income/(loss)		-	-	468	(2,104)	-	(1,636)	-	(1,636)
Total comprehensive income/(loss)		-	-	468	(2,104)	(48,731)	(50,367)	15	(50,352)
Transactions with owners									
Dividends paid	3	-	-	-	-	(2,125)	(2,125)	(37)	(2,162)
Dividend reinvestment plan	3/11	367	-	-	-	-	367	-	367
Foreign investor tax credits recognised		-	-	-	-	30	30	-	30
Total transactions with owners		367	-	-	-	(2,095)	(1,728)	(37)	(1,765)
Balance at 31 May 2020		**85,381**	**-**	**(5,247)**	**(8,053)**	**23,566**	**95,647**	**24**	**95,671**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 May 2020

	NOTE	2020 $000	2019 $000
Cash flows from operating activities			
Receipts from customers		298,537	315,322
Payments to suppliers and employees	26	(269,538)	(284,790)
Interest received		59	92
Interest paid	26	(11,084)	(5,967)
Income tax paid		(2,159)	(5,420)
Government grants received	6	7,698	-
Net cash generated from operating activities		**23,513**	**19,237**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	18/19	(6,618)	(18,610)
Purchase of businesses, net of acquisition costs	8/13	(605)	(35,583)
Disposal of assets		361	-
Other investing cash flows		97	(139)
Net cash used in investing activities		**(6,765)**	**(54,332)**
Cash flows from financing activities			
Proceeds from borrowings	12	70,239	70,201
Repayment of borrowings		(58,440)	(27,858)
Principal elements of lease payments	26	(10,047)	-
Equity raised - dividend reinvestment plan	11	367	2,420
Dividends paid		(2,095)	(9,559)
Dividends paid to non-controlling interests		(37)	(34)
Transaction costs	5	(3,890)	-
Net cash generated/(used) from financing activities		**(3,903)**	**35,170**
Net increase in cash held		**12,845**	**75**
Cash at beginning of the year		3,132	3,077
Net increase in cash held		12,845	75
Loss on net assets held by foreign subsidiaries		(5)	(20)
Cash at end of year		**15,972**	**3,132**
Cash comprises:			
Cash at bank		15,972	3,132
		15,972	**3,132**

Refer to note 26 for the impact of NZ IFRS 16 Leases.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 May 2020

RECONCILIATION OF OPERATING CASH FLOWS

	2020 $000	2019 $000
Profit/(loss) for the year	**(48,731)**	**7,618**
Non-cash items:		
Depreciation (including NZ IFRS 16)	21,356	9,795
Amortisation of intangible assets	2,179	1,969
Interest expense NZ IFRS 9	5,191	-
Impairment of other assets	4,516	240
Impairment of goodwill	40,995	2,631
Recognition of deferred tax asset	(3,241)	367
Fair value movements	(5,532)	(581)
Foreign investor tax credits recognised	30	181
Share of surplus retained by non-controlling interests	15	43
Other non-cash items	76	(6)
	65,585	**14,639**
Movement in working capital:		
Increase in trade and other receivables	(1,851)	(3,454)
Increase/(decrease) in trade and other payables	4,422	(1,136)
Decrease in inventories	707	508
	3,278	**(4,082)**
Items classified as investing activities:		
Realised loss on sale of property, plant and equipment	68	74
Realised loss on sale of businesses	28	-
Transaction, acquisition and divestment costs	3,285	988
	3,381	**1,062**
Net cash flows from operating activities	**23,513**	**19,237**

RECONCILIATION OF NET DEBT

	2020 $000	2019 $000
Cash and cash equivalents	15,972	3,132
Borrowings - drawn debt	(150,487)	(137,733)
Net debt	**(134,515)**	**(134,601)**
Cash and cash equivalents	15,972	3,132
Borrowings - fixed interest rates	(75,310)	(57,601)
Borrowings - variable interest rates	(75,177)	(80,132)
Net debt	**(134,515)**	**(134,601)**

	CASH $000	BORROWINGS $000	TOTAL $000
Net debt as at 31 May 2019	3,132	(137,733)	(134,601)
Net increase in cash movement	12,845	(11,799)	1,046
Foreign exchange movements	(5)	(955)	(960)
Net debt as at 31 May 2020	**15,972**	**(150,487)**	**(134,515)**

The above reflects net drawn debt and excludes the impact of the NZ IFRS 9 non-cash charge (refer note 12) and unamortised loan transaction fees.

BASIS OF PREPARATION

For the year ended 31 May 2020

GENERAL INFORMATION

Abano Healthcare Group Limited (Abano or the Company) is an investor and operator in the trans-Tasman dental industry. The Company is a listed public company, incorporated and domiciled in New Zealand.

The consolidated financial statements (financial statements) of the Company for the year ended 31 May 2020, comprise the Company and its subsidiaries (together the Group).

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

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Company is registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 (FMC Act 2013). The Company is also listed on the New Zealand Stock Exchange (NZX). The financial statements have been prepared in accordance with the requirements of Part 7 of the FMC Act 2013.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Principles (GAAP), incorporating New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements comply with NZ IFRS, other applicable New Zealand Financial Reporting Standards, and authoritative notices that are applicable to entities that apply NZ IFRS. The Group has designated itself as a profit-oriented entity for the purposes of complying with NZ IFRS. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements are prepared on a historical cost basis, with the exception of financial assets and liabilities at fair value through the Income Statement or Other Comprehensive Income.

The significant accounting policies applied in the preparation of these financial statements are provided throughout the notes to the financial statements. Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

The financial statements were approved by the Board of Directors (the Board) on 31 August 2020.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the foreign operations are measured using the currency of the primary economic environment in which it operates (the functional currency).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges.

Foreign operations

The results and Balance Sheets of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from New Zealand dollars are translated into the presentation currency as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

The functional currency of all foreign operations is Australian dollars.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the closing rate.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In applying the accounting policies management continually makes judgements, estimates and assumptions based on historical experience and various other factors, including expectations of future events that may have an impact on the reported financial statements of the Group. All judgements estimates and assumptions made are believed to be reasonably based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions and the differences may be material. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

Other than as disclosed in respect of COVID-19, information about assumptions and estimation uncertainties that have a significant risk of material adjustment are described in the following notes:

- Revenue (note 4).
- Impairment testing of goodwill (note 10).
- Fair value measurement of financial instruments (notes 13 and 15).
- Estimation of useful lives of assets (notes 18 and 19).
- Going concern (refer page 36).

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BASIS OF PREPARATION (CONTINUED)

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards adopted by the Group

NZ IFRS 16 Leases was adopted on 1 June 2019. The impact of the adoption of NZ IFRS 16 and the new accounting policies following the adoption of the leasing standard are disclosed in note 26.

The Group has not early adopted any standards, amendments or interpretations to existing standards that are not yet effective.

There have been no other changes to accounting policies and no other new standards adopted during the year.

COVID-19 PANDEMIC

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. The Group's dental operations in New Zealand and Australia were severely affected by Government restrictions in both countries, particularly during the period 23 March 2020 to mid May 2020 during which the majority of practices were closed. Following the easing of COVID-19 restrictions in New Zealand and Australia in mid May 2020, Abano's dental practices re-opened providing a range of dental services following strict infection control guidelines from the dental and health regulators to ensure the health and safety of patients and staff.

New Zealand

On 22 March 2020, the New Zealand Dental Council announced that all New Zealand dental practices should cease to provide non-essential dental treatments. Lumino closed all its 123 practices on 23 March 2020 and the majority remained closed during Alert Levels 4 and 3 until New Zealand moved to Alert Level 2 on 14 May 2020. During Alert Levels 4 and 3, Lumino established an emergency telephone support centre for patients and 19 practices progressively re-opened to provide emergency dental treatments.

Australia

On 30 March 2020, all Maven dental practices were closed following advice from the Australian Health Protection Principal Committee (AHPPC) to the Australian Government to halt all non-emergency dental care. From 20 April 2020, four practices progressively re-opened to offer emergency dental care. From 27 April 2020, 47 practices were progressively re-opened in response to the Australian Government's announcement that restrictions on some dental procedures would be de-escalated from level 3 to level 2 restrictions. A further reduction in restrictions was announced on 8 May 2020 enabling almost all practices to re-open from 18 May 2020.

Based on information available at the time of preparing financial statements, the Group has assessed the potential impact of COVID-19 and the following table outlines items where the financial statements have been impacted.

Item	COVID-19 Assessment	Note
Revenue	The closure of practices in New Zealand and Australia resulted in a significant decrease in revenue.	4
Government grants	The Group applied for Government grants, COVID-19 Wage Subsidy in New Zealand and JobKeeper in Australia, prior to balance date.	6 20 22
Rent Concessions Right-of-use assets/Lease liabilities	The Group engaged with landlords for rent relief. The Group was eligible and applied the amendment to NZ IFRS 16 which provides an exemption from assessing COVID-19 related rent concessions as lease modifications and as a result no adjustment is required to the carrying value of right-of-use assets or lease liabilities as at 31 May 2020.	6 26
Goodwill Right-of-use assets and Property, plant and equipment	The Group has considered the impacts of COVID-19 in the assumptions used in the assessment of goodwill, right-of-use assets and property, plant and equipment. Impairment has been recognised in respect of a number of practices in both New Zealand and Australia.	10 18 26
Interest bearing liabilities	Prior to year end, the Group negotiated with its lender to extend all facility maturity dates by 12 months and provide financial covenant relief through to November 2021.	12
Deferred acquisition consideration	The Group has considered the impacts of COVID-19 in the assumptions used in the assessment of deferred acquisition liability.	13
Income tax	The closure of practices in New Zealand and Australia has resulted in tax losses in New Zealand. These have been recognised as a deferred tax asset.	17
Trade receivables	The Group has increased the provision for expected credit losses to reflect expected financial difficulties of patients.	20

Refer note 27 for events subsequent to balance date.

ABANO HEALTHCARE GROUP ANNUAL REPORT 2020

BASIS OF PREPARATION (CONTINUED)

GOING CONCERN

The impact of COVID 19 and the mandated temporary closure of all non-essential dental services in March 2020 in both New Zealand and Australia had a material impact on the Group's trading in the last quarter of the 2020 financial year.

In response to those trading conditions, the Group implemented a number of initiatives, including reducing operating expenses, deferring non-essential capital expenditure and utilising wage subsidies and tax relief available from both the New Zealand and Australian Governments. During the financial year the Group sought and received a covenant waiver from its bank for the testing period ended 31 May 2020. The Company also announced on 20 April 2020 that it was unlikely that dividends will be paid in respect of the 2020 or 2021 financial years.

The Company announced it was committed to addressing its capital structure requirements during calendar 2020, and to this end, following termination of the BGH Capital/Ontario Teachers' Pension Plan Board Scheme of Arrangement proposal, continued to evaluate other transaction options to achieve this, including various capital raising initiatives.

While accurate forecasting in the rapidly evolving environment remained challenging, the Group prepared base case financial projections and prospective downside scenarios to support its ability to ensure that the Company would have sufficient banking facilities to meet its operational and working capital requirements for at least 18 months.

To this end, the Group sought and received various amendments to its banking arrangements, whilst maintaining the level of existing facilities. These amendments included the extension of all facilities by 12 months resulting in maturity dates between March 2022 and July 2023, and a no test period on the financial covenants from 1 June 2020 through to November 2021. The amendments also included higher margins which reflect the tenure extension and financial covenant relief, together with margin and facility review events.

The Group provided the bank with details of the various options the Group was considering to address the capital structure and the anticipated timeframes to implement the Group's preferred options. The agreed facility amendments require the Group to provide regular updates to enable the bank to assess progress against the Group's timelines to achieve the Group's capital structure plan. The Directors are not aware of anything at this stage that indicates that the capital structure timeframe set by the Group is not achievable.

On 31 August 2020, Abano announced that it had entered into a Scheme Implementation Agreement under which Adams NZ Bidco Limited (Bidco) has agreed to acquire 100% of the fully paid shares in Abano Healthcare Group Limited for $4.45 per share, by way of a scheme of arrangement (Scheme). Bidco is an entity that will be owned by BGH Capital and Ontario Teachers' Pension Plan Board.

The Scheme is subject to the approval of Abano shareholders, the New Zealand High Court, and other customary conditions, but does not include a right for Bidco to terminate the Scheme if a Material Adverse Change occurs to or in respect of Abano. There is a risk that the shareholder voting thresholds for the transaction may not be satisfied. The Directors consider the likelihood of this risk occurring as low given the nature and terms of the Scheme. The Directors have advised that absent a superior proposal they intend to support the Scheme, and the significant premium to the pre-Scheme announcement share price. Implementation of the Scheme will address the Company's capital structure requirements. Should shareholders not approve the Scheme, it is highly likely that a capital raising will be undertaken. Execution of a capital raising is considered to be within the control of the Company, however the success of the capital raise is dependent on the equity capital markets.

If the Scheme does not proceed, and if the Group does not address its capital structure requirements during the 2020 calendar year, and as a result bank support does not continue to be available, then the going concern assumption may no longer be appropriate, with potential consequences for the Group's ability to realise the value of its assets and discharge its liabilities in the normal course of events.

Having reviewed actions and progress to date, and given what is known at the time of signing the financial statements, whilst material uncertainties as outlined above exist and failure to execute on the capital structure plan could cast significant doubt on the Group's ability to continue as a going concern. The Directors consider the probability of the capital structure not being satisfactorily addressed during the 2020 calendar year to be low. They have therefore concluded that it is appropriate that these financial statements are prepared on a going concern basis.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts and classifications of liabilities that may be necessary should the Group be unable to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATIONS

1. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the 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, including EBITDA[1], to assess the commercial performance of the segments.

DENTAL NEW ZEALAND

Employed or directly contracted clinicians provide a full range of general and specialist services, including complex restorative and cosmetic dental work, generating patient fee revenue for the sector. This sector has 123 practices as at 31 May 2020 (2019: 123).

DENTAL AUSTRALIA

This sector generates most of its revenue by providing facilities and services under Facilities and Service Agreements (FASAs), refer to note 4 for further detail. It also generates patient fee revenue directly for services provided by its employed or directly contracted clinicians. Excluding seven practices closed at balance date, this sector owns and provides services at 107 facilities as at 31 May 2020 (2019: 116).

To provide greater comparability between the two dental segments, the following table includes FASA fee revenue grossed up by the patient fees retained by the clinicians operating under this arrangement. This gross revenue equates to the fees earned from dental patients for services provided directly by these clinicians (refer note 4).

For the year ended 31 May 2020	DENTAL		CORPORATE	GROUP
	NEW ZEALAND $000	AUSTRALIA $000	NEW ZEALAND $000	$000
Gross revenue	130,712	164,764	-	295,476
Revenue	130,712	113,403	-	244,115
EBITDA[1] before support office costs	25,674	33,494	-	59,168
Support office costs[2]	(10,568)	(12,197)	(8,033)	(30,798)
EBITDA after support office costs	15,106	21,297	(8,033)	28,370
Depreciation and amortisation	(11,095)	(12,287)	(153)	(23,535)
Operating profit	4,011	9,010	(8,186)	4,835
Net financing costs				(11,022)
Foreign exchange loss				(68)
Practice partnering scheme - profit share				(288)
Loss on sale of business				(28)
Impairment of other assets				(4,516)
Impairment of goodwill				(40,995)
Net loss before tax				**(52,082)**
Acquisition and transaction costs included in EBITDA	-	53	4,221	4,274
NON-CURRENT ASSETS	**153,919**	**204,495**	**4,347**	**362,761**
TOTAL ASSETS	**164,189**	**221,892**	**15,021**	**401,102**
TOTAL LIABILITIES	**58,207**	**194,089**	**53,135**	**305,431**
CAPITAL EXPENDITURE	**3,715**	**3,355**	**1**	**7,071**

[1] Earnings before interest, tax, depreciation, amortisation, foreign exchange gain/(loss), practice partnering scheme profit share and impairment. This measure may differ from that used by other companies.

[2] Support office costs include brand related marketing costs as well as certain marketing costs which are not currently allocated directly to practices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENT REPORTING (CONTINUED)

For the year ended 31 May 2019	DENTAL		CORPORATE	GROUP
	NEW ZEALAND $000	AUSTRALIA $000	NEW ZEALAND $000	$000
Gross revenue	147,378	191,501	-	338,879
Revenue	147,378	131,874	-	279,252
EBITDA[1] before support office costs	27,789	32,567	-	60,356
Support office costs[2]	(10,984)	(12,679)	(4,002)	(27,665)
EBITDA after support office costs	16,805	19,888	(4,002)	32,691
Depreciation and amortisation	(6,261)	(5,339)	(164)	(11,764)
Operating profit	10,544	14,549	(4,166)	20,927
Net financing costs				(5,285)
Foreign exchange loss				(289)
Practice partnering scheme - profit share				(346)
Impairment of software				(240)
Impairment of goodwill				(2,631)
Net profit before tax				**12,136**
Acquisition and transaction costs included in EBITDA	70	918	-	988
NON-CURRENT ASSETS	**132,869**	**185,122**	**1,986**	**319,977**
TOTAL ASSETS	**144,377**	**197,258**	**3,185**	**344,820**
TOTAL LIABILITIES	**23,768**	**126,577**	**39,756**	**190,101**
CAPITAL EXPENDITURE[3]	**11,517**	**5,056**	**124**	**16,697**

[1] Earnings before interest, tax, depreciation, amortisation, foreign exchange gain/(loss), practice partnering scheme profit share and impairment. This measure may differ from that used by other companies.

[2] Support office costs include brand related marketing costs as well as certain marketing costs which are not currently allocated directly to practices.

[3] Capital expenditure excludes assets acquired through acquisition of dental practices.

2. EARNINGS PER SHARE

	2020 $000	2019 $000
Basic and diluted earnings per share		
Basic earnings per share is calculated by dividing the profit/(loss) attributable to the equity holders of the Company by the weighted average number of ordinary shares on issue during the year.		
Profit/(loss) attributable to equity holders of the Company		
Continuing operations[1]	(48,731)	7,618
Weighted average number of ordinary shares on issue	26,258	26,063
Basic and diluted earnings/(loss) per share (cents)		
Continuing operations[1]	(185.59)	29.23
	(185.59)	**29.23**

[1] Continuing operations have been impacted by COVID-19 and impairment charges (refer notes 10 and 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. DIVIDENDS

	2020 Cents	2019 Cents	2020 $000	2019 $000
Final dividend for the year ended 31 May 2019	8.0	-	2,125	-
Interim dividend for the year ended 31 May 2019	-	16.0	-	4,235
Final dividend for the year ended 31 May 2018	-	20.0	-	5,324
Dividends paid to non-controlling interests			37	34
	8.0	**36.0**	**2,162**	**9,593**

Policies

Dividends are paid in cash in accordance with the dividend policy of the Group. Dividends are recognised once approved by the Board. The dividends were partially imputed.

Supplementary dividends

Supplementary dividends of $29,947 (2019: $181,019) were paid to shareholders not tax resident in New Zealand of which the Company received a foreign investor tax credit entitlement

Dividend reinvestment plan

Under the Company's dividend reinvestment plan, holders of ordinary shares may elect to reinvest the net proceeds of cash dividends payable or credited to acquire further fully paid ordinary shares in the Company. In respect of the year ended 31 May 2020, 94,901 shares with a total value of $0.4m were issued in lieu of cash dividends (2019: $2.45m). Refer note 11 for further details.

4. REVENUE

	2020 $000	2019 $000
Timing of revenue recognition		
Over time	242,596	277,615
At a point in time	1,519	1,637
Total revenue	**244,115**	**279,252**
Geographical markets		
New Zealand	130,712	147,378
Australia	113,403	131,874
Total revenue	**244,115**	**279,252**

The Group has recognised the following assets and liabilities related to contracts with customers:

	2020 $000	2019 $000
Contract assets	3,914	3,386
Contract liabilities	(3,889)	(3,379)

Policies

Standard dental fees

The Group receives fee revenue for dental services provided to patients by clinicians directly employed or contracted to the Group. Revenue is recognised over the period the performance obligation is satisfied i.e. over the course of the specific treatment to which the fee relates.

Specialist orthodontic fees

The Group receives fee revenue for the provision of orthodontic services provided to patients by clinicians directly contracted to the Group. The services provided incorporate multiple performance obligations which may be provided over a period of up to 24 months. Revenue is allocated based on the cost plus margin method as this approximates the cost and effort incurred to provide the service to the patient. Revenue is recognised over the period each performance obligation is satisfied. Laboratory (lab) costs are identified as fulfilment costs. Lab costs are capitalised as a contract asset and released to the Income Statement over the expected term of the contract so long as the Group has the right to recover the cost from the patient in the event the patient decides to stop their treatment.

Dental plan fees

Patients enter into a contract with the Group to receive three dental treatments for a fixed price with payments made upfront or in 12 monthly instalments. Each treatment is treated as a distinct performance obligation. Revenue has been allocated to each performance obligation based on the relative market value of the standalone treatments. Revenue is recognised over the period each performance obligation is satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE (CONTINUED)

Policies (Continued)

Facilities and services revenue

The Group grants access to its dental facilities and provides services under Facilities and Services Agreements (FASAs) to Dental Practice Entities or Clinicians operating a Dental Practice as a sole trader. FASA revenue is recognised over time as the service is provided. The FASA fee is based on a percentage of Practice Entity or Clinician net fee receipts.

Revenue from the sale of dental products

Dental products are sold over the counter at the Group's dental facilities. Revenue is recognised at point of sale when the product is delivered to the patient.

Contract assets and contract liabilities

Contract assets represent revenue recognised for which payment is not yet due as well as costs of fulfilment of contracts. Contract liabilities represent cash received for which the revenue is not yet earned.

Key judgements

Principal/Agent

NZ IFRS 15 requires an entity to determine whether it is a principal or an agent as the performance obligations of principals and agents are different. A principal controls the goods or services before they are transferred to a customer while an agent facilitates the sale of goods or services between a principal and the customer.

When another party is involved in providing goods or services to a customer, an entity that is a principal obtains a right to a service to be performed by the other party which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.

The Group has determined that where patients receive treatment from directly employed or contracted clinicians that the Group is the principal in the relationship with the patients, as it has the right to direct those clinicians to provide the service on its behalf. In the Group's judgement, where Clinicians access the Group's facilities and receive services under a FASA agreement, the clinician is the principal in the relationship with the patients as the Group does not have the necessary degree of control over the service they provide.

For comparability purposes the Segment note records gross revenues which represents fees earned from all dental patients as if the Group were the principal in the relationship with all patients. If it was determined instead that the Group was the agent in the relationship with all patients, then the Group's reported revenue would reduce by $43.5m (2019: $51.0m) and employee benefits would reduce by the same amount leaving operating profit unchanged.

COVID-19

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. The Group's dental operations in New Zealand and Australia were severely affected by Government restrictions and practice closures in both countries. The majority of the Group's New Zealand practices were closed from 23 March 2020 until 14 May 2020 and similarly in Australia, the majority of practices were closed from 30 March 2020 to mid May 2020 resulting in estimated loss of revenue of $37m compared to the same period in the prior year.

5. EXPENSES

	2020 $000	2019 $000
Acquisition and transaction costs[1]	4,274	988
Other operating expenses include:		
Directors' fees	537	590
Charitable donations	8	18
Net loss on sale of plant & equipment	68	74
Auditors' fees		
Audit services - PwC New Zealand	444	398
Other services[2]	57	-

1 Transaction costs of $3.2m were incurred in respect of agreement with Adams NZ Bidco Limited (Bidco) to acquire 100% of the fully paid shares of the Company. The COVID-19 pandemic and closure of the dental networks in both New Zealand and Australia gave rise to a material adverse change and the Scheme was terminated on 30 March 2020. The Company has subsequently re-engaged with Bidco and a number of other parties to explore alternative transactions incurring further costs of $1.0m.

2 Other services related to agreed upon procedures in respect of a potential transaction and scrutineer at the Company's Special Shareholders' meeting on 20 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER OPERATING INCOME

	2020 $000	2019 $000
Operating income includes:		
Government grants	8,491	-
Rental income	750	756
Rent concessions	745	-
Sundry other income	895	513
	10,881	**1,269**

COVID-19

In response to the COVID-19 pandemic, the Governments in both New Zealand and Australia developed wage subsidy schemes to assist businesses suffering at least a 30% decline in revenue over the period of a month compared to the same period in the prior year.

In New Zealand, the Group met the revenue and other eligibility criteria for the 12 week wage subsidy scheme, paid in advance, administered by Work and Income. A total grant of $5.49 million was applied for and received prior to balance date. The Government grant was initially recognised as a liability on receipt. A total of $3.53 million has been recognised in other income representing the pass through of the wage subsidy to employees. At 31 May 2020, $1.96 million is held in deferred income to be recognised in the Income Statement in June and July 2020 (refer note 22).

In Australia, the Group met the revenue and eligibility criteria for the JobKeeper payment scheme, payable monthly in arrears, administered by the Australian Tax Office. Prior to balance date, the Group applied for the Government grant and received a payment of A$2.06 million, with a further payment of A$2.06 million received post balance date on 4 June 2020. A total of A$4.64 million has been recognised in other income representing the pass through of the wage subsidy to employees. At balance date, A$2.58 million is held in other receivables for the period 27 April 2020 to 31 May 2020 (refer note 20).

The Group engaged with landlords and received rent relief on a number of its leases. As permitted by the amendment to NZ IFRS 16 issued on 28 May 2020, the Group was eligible and elected to apply the practical expedient to all rent concessions received of $0.75m and not carry out an assessment to decide whether a COVID-19 related rent concession received is a lease modification. As a result no adjustment is required to the carrying value of right-of-use assets or lease liabilities at 31 May 2020.

7. NET FINANCING COST

	NOTE	2020 $000	2019 $000
Finance income			
Cash and cash equivalents		59	92
		59	**92**
Finance expenses			
Interest - bank borrowings	12	(6,204)	(5,957)
Loan modification - IFRS 9	12	(5,191)	-
Interest - IFRS 16 lease liability	26	(5,210)	-
Other borrowings		(8)	(1)
		(16,613)	**(5,958)**
Fair value movements			
Fair value amortisation and revaluation of deferred acquisition consideration	13	5,388	787
Fair value amortisation of provisions	23	(33)	9
Fair value amortisation and revaluation of other financial instruments		177	(215)
		5,532	**581**
Net financing costs		**(11,022)**	**(5,285)**

Policies

Interest expense and interest income are recognised on a time-proportion basis using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INVESTMENTS

The Group invests into businesses within the New Zealand and Australian dental industry.

Policies

The acquisition method of accounting is used to account for the acquisition of businesses by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed as incurred.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the business acquired, the difference is recognised directly in the Income Statement.

8. ACQUISITION OF BUSINESSES

No businesses were acquired during the year ended 31 May 2020.

During the 2019 financial year, the Group acquired businesses for a total cash consideration of $31.2m and deferred consideration of $2.4m. All acquisitions were asset purchases, with the exception of The Dental Group which was a share purchase. The fair value of the net assets acquired is considered to be provisional until the end of the twelve months following the date of acquisition of each dental practice when the initial accounting for the acquisition will be complete. The goodwill is attributable to the acquisition of patient lists and economies of scale expected from combining the operations of the Group. Goodwill on acquisition will not be deductible for tax purposes. The Group performs a sensitivity analysis of the fair value of the deferred acquisition consideration (refer notes 13 and 15).

9. INVESTMENTS IN SUBSIDIARIES

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

		LEGAL INTEREST HELD BY GROUP	
NAME OF ENTITY	**PRINCIPAL ACTIVITY**	**2020**	**2019**
Abano Dental Limited	Dental	100%	100%
Kidz Teeth Limited	Dental	70%	70%
Lumino Dental Limited	Dental	100%	100%
Maven Dental Group Pty Limited	Dental	100%	100%
Simon Hinckfuss Pty Limited[1]	Dental	-	100%
D & R Dental Pty Limited[2]	Dental	-	100%

[1] Maven Dental Group Pty Limited acquired Simon Hinckfuss Pty Limited on 29 March 2018. This entity was acquired in conjunction with the acquisition of Melbourne Dental Specialists. The company was deregistered on 11 August 2019.

[2] Maven Dental Group Pty Limited acquired D & R Dental Pty Limited on 12 July 2018. This entity was acquired in conjunction with the acquisition of The Dental Group. The company was deregistered on 19 September 2019.

Policies

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

All intercompany transactions and balances are eliminated on consolidation.

Balance dates

The balance date of all subsidiaries is 31 May.

Geography

All subsidiaries are incorporated in New Zealand, except Maven Dental Group Pty Limited which is incorporated in Australia.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. When disposals to non-controlling interests results in a change in control, any gains and losses for the Group are recorded in the Income Statement. If disposals do not result in a change in control, any gain or loss is recognised in the Statement of Changes in Equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. GOODWILL

	NOTE	2020 $000	2019 $000
Opening net book value		251,266	227,309
Acquired through acquisition of businesses	8	-	30,056
Finalisation of provisional goodwill measurement period adjustment		7	(192)
Disposal - sale of businesses[1]		(270)	-
Foreign exchange movement		1,212	(3,276)
Impairment[2]		(40,995)	(2,631)
Closing net book value		**211,220**	**251,266**
Cost		254,084	255,438
Accumulated amortisation and impairment		(42,864)	(4,172)
Net book value		**211,220**	**251,266**

Goodwill by Segment:

	2020 $000	2019 $000
Dental:		
- New Zealand	87,864	95,483
- Australia	123,356	155,783
	211,220	**251,266**

1 Goodwill on disposal of businesses relates to the sale of two dental practices in Australia.

2 The carrying amount of the New Zealand and Australian CGUs has been reduced to their recoverable amount through recognition of an impairment charge against goodwill.

Policies

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business or subsidiary at the date of acquisition.

Goodwill is initially recognised at cost and is subsequently measured at cost less any accumulated impairment losses.

As goodwill has an indefinite life, it is tested annually for impairment or where there is an indication that it may be impaired (which is assessed at least at each reporting date). The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use (VIU) and fair value less costs of disposal (FVLCOD). An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of a practice include the carrying amount of goodwill relating to the practice sold. This goodwill is allocated to each practice based on relative value at the date of disposal (where the practice is included as part of a group of CGUs).

Judgements

Goodwill acquired in a business combination is allocated to an individual cash generating unit (CGU) or a group of CGUs that is expected to benefit from the synergies of the combination. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets.

For internal management purposes, the business monitors the performance of practices at an individual country level as a homogeneous portfolio. In addition to this, the Group separately monitors the performance of individual practices that are still in its earnout period i.e. eligible for deferred acquisition consideration (DAC). Goodwill has been allocated to individual CGUs where these are still in an earnout period (DAC CGUs), with the remainder of Goodwill being allocated and tested at a Country portfolio level (Non-DAC CGU). Support office costs have been allocated to the CGUs on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. GOODWILL (CONTINUED)

Judgements (Continued)

This represents a change from the previous year, in which goodwill was allocated to and tested at an individual CGU level. The Group has assessed the impact of this change, including assigning appropriate WACC rates and a reasonable allocation of corporate overheads to individual DAC CGUs and concluded that there is no material impact on the prior year financial statements as a result of this change.

The impacts of COVID-19 on the Group have been wide ranging and significant as disclosed under the Basis of Preparation: Critical Accounting Estimates and Assumptions. There is a heightened level of uncertainty at present which makes accurately forecasting the future particularly challenging. The Group expects that the business will make a full recovery to pre-COVID-19 earnings levels over time, however clarity cannot be provided on how long this will take.

Assumptions

Whilst there are uncertainties around forecasting in the COVID-19 environment and the potential impact on revenue, it is considered that the forecast EBITDA assumptions are reasonable.

To assess impairment, management estimates the future cash flows of the CGUs with reference to historical performance, industry trends and external market evidence. This assessment is required to be made based on events and knowledge as at 31 May 2020.

Determining appropriate EBITDA growth is made difficult by the impact of COVID-19 on the FY20 results and the forecast recovery profile is uncertain. EBITDA growth rates have been forecast taking into account historic performance, the economic outlook for the markets the CGUs operate in, forecast patient demand, clinical availability and factors specific to each practice. EBITDA growth has been disclosed as a key assumption as a number of costs are variable and link directly to revenue levels, such as commission, consumables and lab fees. Other fixed costs of the CGUs, which do not vary significantly with revenue changes, are forecast based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost-saving measures.

At 31 May 2020, the New Zealand and Australian CGUs faced significant market and economic uncertainty as a result of the COVID-19 pandemic and the impact of the various restrictions across both countries.

The New Zealand market showed positive signs following the easing of restrictions in mid May 2020. Notwithstanding this, there is still a strong degree of uncertainty in respect of economic conditions and patient demand over the forecast period commencing from June 2020 (in 2021 financial year). As at 31 May 2020, 18 DAC CGUs in New Zealand have been impaired following management's assessment of the cash flows and growth assumptions for the forecast periods taking into account this uncertainty.

The Australian market had different characteristics to New Zealand as restrictions were lifted on a State by State basis, and not at the same time. In several states social distancing requirements remain in place. There remains a high degree of uncertainty in respect of economic conditions and patient demand over the forecast period, as has been illustrated by recent state based alert level restrictions in Victoria. The business performance is forecast to be impacted by both COVID-19 and forecast industry decline as indicated by market surveys, in the near to medium term with gradual growth thereafter. The non-DAC CGU and 13 DAC CGUs in Australia have been impaired following management's assessment of cashflows and growth assumptions for the forecast periods after taking into account this uncertainty. These forecasts are informed by the economic outlook, forecast patient demand and market characteristics specific to dentistry for example the supply of new dentists, the take-up of private health insurance.

In New Zealand and Australia there are 34 and 30 individual DAC CGUs respectively. These individual DAC CGUs have been grouped together for disclosure purposes as the carrying amount of goodwill for the individual DAC CGUs is not significant in comparison to the Group's total carrying amount of goodwill.

In New Zealand, the recoverable amounts of three individual DAC CGUs have been determined based on fair value less costs of disposal, with the balance of the DAC CGUs and the non-DAC CGU being measured on a value-in-use basis. The value-in-use calculations use cash flow projections which cover a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rate, which is the weighted average growth rate used to extrapolate cash flows beyond the forecast period. The growth rate does not exceed the long-term average growth rate for the sectors in which the CGUs operate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. GOODWILL (CONTINUED)

Assumptions

In Australia, the recoverable amounts of nine DAC CGUs have been determined based on fair value less costs of disposal with the balance of the DAC CGUs and non-DAC CGU being measured on a value-in-use basis. The FVLCOD calculation has been determined using level three inputs in terms of the fair value hierarchies in NZ IFRS 13.

FVLCOD calculations in New Zealand and Australia use the estimated maintainable earnings for each practice multiplied by industry derived earnings (EV/EBITDA) multiples.

In Australia, the value-in-use calculations use cash flow projections which cover a five-year period. Cash flows beyond the cash flow projection period are extrapolated using the estimated terminal growth rate. The cash flow projection period has been extrapolated for a further three years to derive a two-stage terminal growth period, allowing for a longer and more gradual recovery of the Australian sector.

The growth rates used beyond the cash flow projection period uses an increasing growth rate reflecting a stabilisation of the Australian dental industry. Growth rates applied to the terminal growth period do not exceed the long-term average growth rate for the sectors in which the CGUs operate.

Future capex spend is estimated at historical replacement levels, and no incremental revenue or costs savings are assumed as a result of this expenditure.

The discount rate represents the current market assessment of the risks specific to the CGU, taking into account the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates used are supported by independent third party expert advice.

The Group has considered the impacts of COVID-19 in the assumptions used in the assessment of goodwill, including its forecast cash flows and the discount rate.

The key assumptions used for the VIU of the CGUs are as follows:

2020	**New Zealand**	**Australia**
Annual EBITDA growth (relative to base year)	(17.0%) to 1.5%	(8.0%) to 1.0%
Terminal growth rates	1.5%	Stage 1: 0.0% to 1.0% Stage 2: 1.5%
Post-tax discount rate used for DAC practices	12.6%	11.2%
Post-tax discount rate used for non-DAC practices	9.7%	9.4%
2019	**New Zealand**	**Australia**
Annual EBITDA growth rates	2.0%	2.0%
Terminal growth rates	2.0%	2.0%
Post-tax discount rate	9.0%	9.0%

The key assumptions used for the FVLCOD calculations of the CGUs are as follows:

	New Zealand	**Australia**
Maintainable earnings (EBITDA)	Average of FY21, FY22 and FY23 forecast EBITDA	
EV/EBITDA multiples - DAC	4.0x	4.5x
EV/EBITDA multiples - non-DAC	N/A	6.25x

Impairment

In New Zealand, based on the assessment of the recoverable value for the individual DAC CGUs, it was determined that the carrying value was higher than the combined recoverable value of $29.0m in relation to 18 DAC CGUs. This resulted in the recognition of an impairment charge of $7.6m (2019: nil).

In Australia, based on the assessment of the recoverable value, it was determined that the carrying value was higher than the recoverable value in relation to 10 individual DAC CGUs with a combined recoverable value of $24.4m and the Non-DAC CGU with a combined recoverable value of $85.1m. This resulted in the recognition of an impairment charge of $33.4m (2019: $2.6m).

Overall, the Group has recognised a total goodwill impairment charge for the year of $41.0m.

Goodwill balance - post impairment	**New Zealand $m**	**Australia $m**
DAC CGUs	42.6	70.9
Non-DAC CGU	45.3	52.5
Total Goodwill at 31 May 2020	**87.9**	**123.4**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. GOODWILL (CONTINUED)

Sensitivities

Short term volatility may be experienced at the individual CGU level due to turnover within the clinician team, both planned and unplanned, as well as the impact of external environmental and economic conditions. The impact of a clinician leaving can vary depending on the proportion of revenue generated by the leaving clinician relative to the overall revenue of the CGU and could have a material short term impact on that individual CGUs EBITDA growth. The impact will also depend on the length of time it takes to replace the departing clinician and the level of experience of the replacement clinician.

Non-DAC CGUs

Any adverse change in any of the New Zealand Non-DAC CGUs assumptions will result in an impairment. The recoverable value of the Australian Non-DAC CGU is equal to the carrying amount after recognising the current year impairment.

A change in key assumptions would impact the VIU as follows:

Change in Value-in-Use of Non-DAC CGUs	**Sensitivities**					
	Annual EBITDA Growth		**Terminal Growth Rate Stage 1 and 2**		**Post-tax Discount Rate**	
$m	**-1%**	**+1%**	**-0.5%**	**+0.5%**	**-1%**	**+1%**
Australia	(6.5)	6.5	(3.6)	4.1	8.3	(6.8)
New Zealand	(6.6)	6.6	(3.1)	3.5	7.6	(6.1)

DAC CGUs

In New Zealand there are a total of 34 CGUs. There are 16 individual DAC CGUs with a recoverable value of $32.8m and combined headroom of $4.7m (on a VIU basis) and 18 individual CGUs that were impaired by $7.6m.

In Australia there are a total of 30 CGUs. There are 20 individual DAC CGUs with a recoverable value of $68.3m and combined headroom of $5.6m (on a VIU basis) and 10 individual CGUs that were impaired by $5.9m.

The recoverable value of the individual DAC CGUs with headroom would equal the carrying amounts if the key assumptions were to change as follows:

	Base Case	**Increase/(Decrease)**
New Zealand		
Annual EBITDA growth (relative to base year)	(17.0%) to 1.5%	(4.1)%
Terminal growth rate	1.5%	(2.8)%
Post-tax discount rate	12.6%	2.7%
Australia		
Annual EBITDA growth (relative to base year)	(8.0%) to 1.0%	(4.1)%
Terminal growth rate	1.5%	(1.3)%
Post-tax discount rate	11.2%	1.2%

In relation to New Zealand DAC CGUs which were impaired, the aggregated recoverable value of $29.0m was based on the higher of FVLCOD or VIU. The risks and uncertainties specific to these practices is that the recovery profile and maintainable earnings may not be achieved.

In relation to Australian DAC CGUs which were impaired, the aggregated recoverable value of $24.4m was based on the higher of FVLCOD or VIU. The risks and uncertainties specific to these practices is that the recovery profile and maintainable earnings may not be achieved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FUNDING

11. SHARE CAPITAL

	NUMBER OF SHARES 000	ORDINARY SHARES $000	TREASURY SHARES $000	TOTAL $000
At 31 May 2018	25,866	82,946	(352)	82,594
Dividend reinvestment plan - shares issued	321	2,420	-	2,420
2015 share scheme - transfer of shares from treasury stock	-	(352)	352	-
At 31 May 2019	**26,187**	**85,014**	**-**	**85,014**
Dividend reinvestment plan - shares issued	95	367	-	367
At 31 May 2020	**26,282**	**85,381**	**-**	**85,381**

Policies

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

Shares on issue

As at 31 May 2020 there were 26,282,238 ordinary shares on issue (2019: 26,187,337). All ordinary shares rank equally with one vote attached to each fully paid ordinary share. There is no other class of share issued.

Dividend Reinvestment Plan

During the year, shares were issued under the Dividend Reinvestment Plan (DRP). The issue price was determined, in accordance with the DRP, as the volume weighted average sale price for all Abano shares sold on the NZX over the five trading days immediately following the record date, less a 3.0% discount for shares issued on 3 September 2019.

The DRP was applied to the dividend paid on 3 September 2019 (2019: 20 August 2018). 94,901 (2019: 217,048) shares were issued at $3.93 (2019: $8.37) per share, representing 17.5% participation in the DRP.

The DRP was also applied to the dividend paid on 22 February 2019. 104,247 shares were issued at $6.05 per share.

12. BORROWINGS

	2020 $000	2019 $000
Non-current borrowings		
Secured bank loans	154,666	137,733
	154,666	**137,733**

On 27 June 2019, the Group repaid and cancelled its A$25m facility with ASB Bank Limited (ASB) and Commonwealth Bank of Australia (CBA) which was due to expire on 1 June 2020. The repayment was funded from existing debt facilities. Certain terms of the facility agreements were modified in conjunction with this change.

On 29 May 2020, the Group amended its banking facilities with ASB and CBA. The maturity date of each facility was extended by 12 months with maturity dates now between March 2022 and July 2023. The Group negotiated covenant waivers through to November 2021, including waivers for any COVID-19 or pandemic related events. The amendments include new margins which reflect the tenure extension and financial covenant relief, together with margin and facility review events which will be assessed by reference to progress on a transaction that the Group has elected to pursue.

The changes to the terms were not considered substantial under NZ IFRS 9 and therefore did not constitute a new facility. NZ IFRS 9 requires a gain or loss equal to the difference between the present value of the contractual cash flows under the original and modified terms to be recognised in the Income Statement for non-substantial modifications. The contractual cash flows are calculated on the full facilities (including undrawn amounts) for the remaining term of each facility. A non-cash charge of $5.2m has been recognised within finance costs. The carrying value of the bank facilities have been adjusted by the same amount. This non-cash charge will be reviewed at the end of each reporting period and amortised over the remaining terms of the loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. BORROWINGS (CONTINUED)

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

REVOLVING TRANCHES	CURRENCY	AUD FACILITY AUD$000	MATURITY DATE	FACILITY $000	DRAWN AS OF 31 MAY 2020	UNDRAWN AS OF 31 MAY 2020	APPLICABLE INTEREST RATE AS OF 31 MAY 2020
Revolving Credit Facility Tranche B	AUD	40,000	30 June 2022	42,817	42,817	-	1 month BBSY + 1.23%
Revolving Credit Facility Tranche C	AUD	42,000	10 October 2022	44,958	44,958	-	1 month BBSY + 1.25%
Revolving Credit Acquisition Facility	AUD	30,000	1 July 2023	32,113	17,705	14,408	1 month BBSY + 1.32%
				119,888	105,480	14,408	

The 30 April 2013 Abano Refinance Loan Facility Agreement (Abano Facility) comprises the following terms and tranches:

REVOLVING TRANCHES	CURRENCY	MATURITY DATE	FACILITY $000	DRAWN AS OF 31 MAY 2020	UNDRAWN AS OF 31 MAY 2020	APPLICABLE INTEREST RATE AS OF 31 MAY 2020
Revolving Credit Facility Tranche A	NZD, AUD, HKD, SGD	15 December 2022	19,007	19,007	-	3 month BKBM + 1.23%
Revolving Credit Facility Tranche B	NZD, AUD, HKD, SGD	31 March 2022	20,000	20,000	-	3 month BKBM + 1.14%
Revolving Credit Facility Tranche C	NZD, AUD, HKD, SGD	10 October 2022	10,000	6,000	4,000	3 month BKBM + 1.25%
			49,007	45,007	4,000	

Policies

Cash and Cash Equivalents

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

Borrowings

Borrowings are initially recognised at fair value, net of any transaction costs. Borrowings are subsequently stated at amortised cost using the effective interest method, where any difference between the net proceeds and redemption value is recognised in the Income Statement over the period of the borrowing. Quantitative and qualitative factors are assessed to determine if changes to banking terms result in an extinguishment or modification of borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after Balance Sheet date.

All borrowing costs are expensed.

Facilities

The Facilities are secured by way of a general security agreement over the Group's assets and undertakings.

The Facilities agreements contain undertakings and negative obligations which restrict the Group from certain activities including, among other things, incurring debt, creating security interests over assets, and selling or acquiring assets, in each case except as permitted under the Facilities.

The Facilities are subject to specific cash flow covenants as detailed in note 15 under Capital Management Risk. The Group complied with these covenants at all times during the year and on 29 May 2020 negotiated covenant waivers through to November 2021, including waivers for any COVID-19 or pandemic related events.

Other

The Group's overdraft facilities have a limit of $1m.

As at 31 May 2020 the Group's weighted average cost of borrowings, including line fees and interest rate swaps, was 4.74% (2019: 4.50%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. DEFERRED ACQUISITION CONSIDERATION

	NOTE	2020 $000	2019 $000
Current deferred acquisition consideration			
Acquisition earn-out liabilities		779	733
Acquisition retention liabilities		579	542
		1,358	**1,275**
Non-current deferred acquisition consideration			
Acquisition earn-out liabilities		1,221	5,949
Acquisition retention liabilities		732	2,046
		1,953	**7,995**
Term schedule			
Later than one year, less than two		586	3,676
Later than two years, less than five		1,367	4,319
Over five years		-	-
		1,953	**7,995**
Reconciliation - deferred consideration			
Opening balance at start of year		9,270	11,132
Deferred consideration paid during year		(597)	(3,326)
Deferred consideration on new acquisitions	8	-	2,373
Fair value amortisation on deferred acquisitions		240	280
Foreign exchange movement		26	(122)
Deferred consideration revalued (recognised in Income Statement)		(5,628)	(1,067)
Closing balance at end of year		**3,311**	**9,270**

Policies

Total acquisition prices paid for dental practices are negotiated market prices. The majority of the acquisition price is paid at the acquisition date with the remainder being recognised as acquisition retention amounts and earn-out liabilities. These liabilities represent the portion of the purchase price withheld from the vendor as security for the performance of the business for a certain period after acquisition. This is not remuneration for services as clinicians are paid separately for their services in the business. The funds are paid to the vendor at the expiry of this term, only if the practice performed to forecast during this time. The payments are not automatically forfeited in the event that a vendor clinician leaves a practice prior to the end of the retention or earn out period. No interest is payable on these amounts.

Fair value judgements

Refer note 15, fair value adjustments, for the methodology applied to fair value the deferred acquisition consideration. Reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would not have a material effect on the fair value of the deferred acquisition consideration.

COVID-19

The Group has considered the impacts of COVID-19 on the forecast cashflows used to assess the fair value of the deferred acquisition liability. This resulted in a $5.6m reduction of the liability at balance date. Should the individual terms of the earnout agreements be renegotiated, the liability would be revalued to reflect the terms of the new agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 $000		2019 $000	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps - cash flow hedges	-	11,355	-	8,392
	-	**11,355**	**-**	**8,392**
Current portion	-	180	-	222
Non-current portion	-	11,175	-	8,170
	-	**11,355**	**-**	**8,392**

Policies

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks. The Group designates certain derivatives as a hedge of a highly probable forecast transaction (cash flow hedge). Where derivatives qualify for hedge accounting, recognition of any gain or loss is made in equity to the extent that the hedge was deemed effective. The portion of the hedge not deemed effective is recognised in the Income Statement.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Hedging relationships are documented at inception, along with the assessment of whether the relationship is highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement within finance expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

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

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Interest rate swaps

The notional principal amounts of outstanding interest rate swap contracts for the Group at 31 May 2020 were $132.1m including forward start interest rate swaps of $56.8m (2019: $144.8m including forward start interest rate swaps of $87.2m), refer note 15(b).

At 31 May 2020 the fixed rates vary from 2.55% to 4.33% payable (2019: 2.55% to 4.82%) and the floating rates receivable are BKBM in NZD and BBSY in AUD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group financial performance.

The Group's treasury policy, as approved by the Board, is to identify, define, measure and record interest rate and foreign exchange risks by the various categories and to manage each risk within the defined risk control parameters. Its objective is to minimise the impact of adverse market movements across the whole business, as part of the overall business strategy to de risk the business.

The Group uses derivative financial instruments to hedge certain risk exposures and seeks to apply hedge accounting to manage volatility in profit or loss in accordance with the Group's treasury policy.

The major areas of financial risks faced by the Group and the information on the management of the related exposures are detailed below:

MARKET RISK

(a) Foreign Exchange Risk

Policies

Foreign exchange risk is the risk that adverse movements in foreign exchange rates will negatively impact on the Group's profitability, Balance Sheet and cash flows.

The Group has minimal exposure to foreign exchange transaction risk as the majority of receipts and payments for each company within the Group are made in the currency of the country that the companies operate in. However, when considered appropriate the Group may enter into approved foreign exchange instruments to hedge foreign exchange transaction risk arising from specific transactions.

The Group is exposed to foreign exchange translation risk on the Income Statement and Balance Sheet of companies that are resident and operate in countries other than New Zealand. Where possible the Group takes advantage of the natural offset in these foreign exchange exposures and borrows in the same currencies in which the cash flows from operations are generated. The Group does not hedge its net exposure to translation gains or losses in respect of these non New Zealand dollar functional currency assets or liabilities.

(b) Interest Rate Risk

Policies

Interest rate risk is the risk that the Group's funding costs will materially exceed annual budget and interest cost projections due to an adverse movement in interest rates or due to an unforeseen increase in borrowings.

The Group's appetite for exposure to interest rate risk is low so its desire is to manage and minimise the risk by actively managing its exposure to movements in interest rates. The Group also seeks to minimise the net funding costs within acceptable risk parameters.

The Group's policy to manage and minimise interest rate risk is to enter into floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group's policy on interest rate risk management is to hedge using approved interest rate instruments within the following maturity bands:

Period	Minimum Cover	Maximum Cover
0 to 3 years	20%	80%
3 to 5 years	20%	80%
5 to 10 years	0%	50%

Contractual pricing

All of the Group's cash and bank borrowings are subject to cash flow interest rate risk as floating interest rates are reset as market rates change. The net exposure to interest rate variability and the contractual repricing dates for those interest rate changes are shown on the following page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

	NOTE	REPRICING LESS THAN 1 YEAR $000	REPRICING 1-5 YEARS $000	REPRICING OVER 5 YEARS $000	TOTAL $000
As at 31 May 2020					
Floating rate instruments					
Cash		15,972	-	-	15,972
Drawn bank borrowings		(150,487)	-	-	(150,487)
Total variable rate instruments		(134,515)	-	-	(134,515)
Effect of interest rate swaps					
Notional principal amount of interest rate swaps used in cash flow hedges	14	12,845	62,465	-	75,310
Notional exposure to variable interest rates as at 31 May 2020					**(59,205)**
Notional principal amount of forward start interest rate swaps used in cash flow hedges	14	-	56,761	-	56,761
As at 31 May 2019					
Floating rate instruments					
Cash		3,132	-	-	3,132
Drawn bank borrowings		(137,733)	-	-	(137,733)
Total variable rate instruments		(134,601)	-	-	(134,601)
Effect of interest rate swaps					
Notional principal amount of interest rate swaps used in cash flow hedges	14	13,310	44,291	-	57,601
Notional exposure to variable interest rates as at 31 May 2019					**(77,000)**
Notional principal amount of forward start interest rate swaps used in cash flow hedges	14	-	20,000	67,167	87,167

Sensitivity

The tables below demonstrate the Group's sensitivity on its net unhedged exposure to interest rates from a 0.5% change in floating interest rates at balance date, with all other variables held constant, of the Group's profit before tax.

	2020 INTEREST RATE RISK				2019 INTEREST RATE RISK			
	0.5% PROFIT	0.5% EQUITY	(0.5%) PROFIT	(0.5%) EQUITY	1% PROFIT	1% EQUITY	(1%) PROFIT	(1%) EQUITY
Net unhedged cash exposure	296	296	(296)	(296)	770	770	(770)	(770)

Interest rate swaps

At 31 May 2020 the fixed rate swaps vary from 2.55% to 4.33% payable (2019: 2.55% to 4.82%) and the floating rates receivable are BKBM in NZD and BBSY in AUD.

LIQUIDITY RISK

Policies

Liquidity risk is the risk that the short term and/or long term cash requirements of the Group are unable to be met. Short term liquidity management requires that adequate funds are available to meet day-to-day cash requirements of the Group.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Contractual maturities

The following table details the remaining contractual maturities at balance date of the Group's financial liabilities and derivative financial instruments. These are calculated using contractual undiscounted cash flows and the earliest date the Group can be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

	CARRYING VALUE $000	LESS THAN 1 YEAR $000	BETWEEN 1 & 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL CONTRACTUAL CASH FLOWS $000
As at 31 May 2020					
Financial Liabilities					
Borrowings	154,666	5,090	155,694	-	160,784
Lease liabilities[1]	95,625	14,592	50,839	59,489	124,920
Trade and other payables	15,644	14,311	1,412	-	15,723
Interest rate swap derivatives	11,355	2,068	8,621	-	10,689
Deferred acquisition consideration	3,311	1,365	1,322	714	3,401
Total	**280,601**	**37,426**	**217,888**	**60,203**	**315,517**
As at 31 May 2019					
Financial Liabilities					
Borrowings	137,733	5,380	143,340	-	148,720
Trade and other payables	13,592	12,179	1,671	-	13,850
Interest rate swap derivatives	8,392	1,058	5,381	784	7,223
Deferred acquisition consideration	9,270	1,282	8,225	47	9,554
Total	**168,987**	**19,899**	**158,617**	**831**	**179,347**

[1] Lease liabilities are recognised following the adoption of NZ IFRS 16 Leases retrospectively from 1 June 2019. The Group has not restated comparatives for the 2019 year, as permitted under the specific transition provisions in the standard (refer note 26).

CREDIT RISK

Policies

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contracted obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk is managed on a sector by sector basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposures to trade, government and public customers, including outstanding trade receivables and committed transactions. Only registered banks are accepted for bank deposits or derivative financial instruments.

Concentration

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

CAPITAL MANAGEMENT RISK

Policies

The primary objective of the Group's capital management is to ensure the Group operates as a going concern, that it maintains a strong credit rating with its banks and appropriate capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Ratios and covenants

The Group internally monitors capital using two gearing ratios, the first being net bank debt divided by total equity plus net bank debt and the second includes net bank debt plus deferred acquisition consideration. The Group includes within net bank debt, drawn bank borrowings less cash and cash equivalents. The Group gearing ratios as at 31 May 2020 were 58.4% (2019: 46.1%) and 59.0% (2019: 47.8%) respectively.

There has been no change in Group policies or objectives in relation to capital risk management since the prior year.

During the year ended 31 May 2020, the Group was subject to two financial banking covenants from its bankers these being a debt coverage ratio and a cash coverage calculation. These were calculated and reported to the bank on a quarterly basis. There have been no breaches of these covenants or events of review for the current or prior period. On 29 May 2020, the Group negotiated covenant waivers through to November 2021, including waivers for any COVID-19 or pandemic related events (refer going concern disclosure and note 12). From 29 May 2020, the Group is also subject to a liquidity ratio, reported to the bank on a monthly basis.

In both covenants, Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), a non-GAAP financial measure, is used, calculated on a rolling 12 month basis including all acquisitions as if they had been owned for the relevant full 12 month period and excluding the effects of NZ IFRS 16 adjustments.

EBITDA is Net Profit After Tax excluding GAAP compliant net finance expenses, gains/losses arising on sale of businesses, non-controlling interests, tax, depreciation, amortisation and impairment costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

FINANCIAL INSTRUMENTS BY CATEGORY

Policies

Financial assets and financial liabilities held by the Group are classified into the following categories: derivatives used for hedging, financial assets at fair value through profit or loss, or loans and receivables. Classification depends on the purpose for which they were entered into.

Classification

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value plus transaction costs, and carried at amortised cost using the effective interest-rate method. They are included as current assets, except for maturities greater than 12 months after balance date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Balance Sheet.

	FAIR VALUE HEDGING INSTRUMENT $000	AMORTISED COST $000	TOTAL $000
Assets per Balance Sheet			
As at 31 May 2020			
Cash and cash equivalents	-	15,972	15,972
Trade and other receivables excluding prepayments	-	8,901	8,901
Contract assets	-	3,914	3,914
	-	**28,787**	**28,787**
As at 31 May 2019			
Cash and cash equivalents	-	3,132	3,132
Trade and other receivables excluding prepayments	-	9,190	9,190
Contract assets	-	3,386	3,386
	-	**15,708**	**15,708**

	FAIR VALUE HEDGING INSTRUMENT $000	FAIR VALUE THROUGH PROFIT AND LOSS $000	OTHER FINANCIAL LIABILITIES AT AMORTISED COST $000	TOTAL $000
Liabilities per Balance Sheet				
As at 31 May 2020				
Borrowings	-	-	154,666	154,666
Trade and other payables	-	1,333	14,311	15,644
Contract liabilities	-	-	3,889	3,889
Lease liabilities	-	-	95,625	95,625
Derivative financial instruments	11,355	-	-	11,355
Deferred acquisition consideration	-	3,311	-	3,311
	11,355	**4,644**	**268,491**	**284,490**
As at 31 May 2019				
Borrowings	-	-	137,733	137,733
Trade and other payables	-	1,414	12,179	13,593
Contract liabilities	-	-	3,379	3,379
Derivative financial instruments	8,392	-	-	8,392
Deferred acquisition consideration	-	9,270	-	9,270
	8,392	**10,684**	**153,291**	**172,367**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

FAIR VALUE ADJUSTMENTS

Policies

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

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

Assumptions and judgements

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 discount rate of 1.54% (2019: 2.64% to 3.62%). 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 as at balance date are those relating to same store revenue growth rates for first year post COVID-19 range from -16% to -2%. Standard same store growth rates for subsequent years range from -5% to 3% (2019: 2.0%). For a small number of practices same store growth rates are in the range of -5% to 65% (2019: 1.8% to 56.7%), reflecting expected growth from expansion of these practices. 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.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
As at 31 May 2020				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	11,355	-	11,355
Deferred acquisition consideration	-	-	3,311	3,311
Practice Partnering Scheme - contractual entitlement	-	-	1,333	1,333
	-	**11,355**	**4,644**	**15,999**
As at 31 May 2019				
Financial liabilities				
Interest rate swaps - cash flow hedges	-	8,392	-	8,392
Deferred acquisition consideration	-	-	9,270	9,270
Practice Partnering Scheme - contractual entitlement	-	-	1,414	1,414
	-	**8,392**	**10,684**	**19,076**

There were no transfers between any levels and no change in valuation techniques during the years ended 31 May 2020 and 2019. The carrying value of any other financial assets and liabilities approximates fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TAXATION

16. INCOME TAX EXPENSE

	NOTE	2020 $000	2019 $000
Current tax expense			
Current year		792	4,207
Under/(over) provision for prior years		(443)	(82)
		349	**4,125**
Deferred tax expense			
Movement in temporary differences		(4,148)	383
Under/(over) provision for prior years		433	(33)
	17	**(3,715)**	**350**
Total income tax expense/(benefit) in Income Statement		**(3,366)**	**4,475**
Reconciliation of accounting profit/(loss) and income tax expense/(benefit)			
Profit/(loss) before income tax		(52,082)	12,136
Taxation at 28%		(14,583)	3,398
Impact of difference in Australian tax rate		(109)	197
Non-deductible costs/losses		13,887	1,025
Non-assessable items		(2,560)	(62)
Prior period adjustment		(10)	(83)
Other		9	-
Total income tax benefit/(expense) in Income Statement		**(3,366)**	**4,475**

	NOTE	2020 $000	2019 $000
Imputation credits available for subsequent reporting periods based on a tax rate of 28%		24	792

Policies

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Consolidated tax group

From 1 June 2015 Abano formed a New Zealand tax consolidated group comprising of Abano Healthcare Group Limited, Abano Dental Limited and Lumino Dental Limited.

Imputation credits

Imputation credits available for subsequent reporting periods are shown in the table above. The amounts shown represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax.

Franking credits

The balance of Australian franking credits able to be used by the Group in subsequent periods as at 31 May 2020 is A$19.3m (2019: A$17.0m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. DEFERRED INCOME TAX

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

	NOTE	2020 $000	2019 $000
Balance at start of year		3,740	2,417
Adjustment on adoption of NZ IFRS 16	26	2,760	-
Balance at 1 June 2019 (restated)		6,500	2,417
Acquisition/(divestment) of businesses		-	172
Charge to equity (cashflow hedges)		859	1,436
Foreign exchange movement		24	65
Deferred tax expense	16	3,715	(350)
Balance at end of year		**11,098**	**3,740**
Deferred tax assets/(liabilities) are attributable to the following:			
Property, plant and equipment		(1,860)	(1,768)
Right of use assets		(23,740)	-
Lease liabilities		27,509	-
Employee benefits		2,641	2,507
Trade and other receivables		439	290
Trade and other payables		529	273
Derivative financial instruments		3,302	2,438
Financial liabilities (loan modification NZ IFRS 9)		1,107	-
Recognition of tax losses		1,171	-
		11,098	**3,740**
Included in the Balance Sheet as:			
Deferred tax assets non-current		11,098	3,740
		11,098	**3,740**

Charges to the Income Statement are attributable to the following:

	2020 $000	2019 $000
Movement in:		
Property, plant and equipment	(92)	(728)
Right of use assets	3,106	-
Lease liabilities	(2,116)	-
Employee benefits	567	417
Trade and other receivables	149	96
Trade and other payables	256	4
Financial liabilities (loan modification NZ IFRS 9)	1,107	-
Tax losses	1,171	-
Other items:		
Acquired balances	-	(172)
Prior year under provision	(433)	33
	3,715	**(350)**

Policies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OTHER

18. PROPERTY, PLANT AND EQUIPMENT

	NOTE	LEASEHOLD IMPROVEMENTS $000	PLANT & EQUIPMENT $000	MOTOR VEHICLES $000	WORK IN PROGRESS $000	TOTAL $000
As at 1 June 2018						
Cost		24,726	70,057	646	3,834	99,263
Accumulated depreciation		(9,730)	(40,916)	(450)	-	(51,096)
Net book value		**14,996**	**29,141**	**196**	**3,834**	**48,167**
Year ended 31 May 2019						
Opening net book value		14,996	29,141	196	3,834	48,167
Acquired through acquisition of businesses	8	909	1,937	-	26	2,872
Additions		323	3,376	-	8,641	12,340
Transfers		5,702	5,928	-	(11,630)	-
Disposals		3	41	-	-	44
Foreign exchange movement		(141)	(346)	-	(33)	(520)
Depreciation		(2,047)	(7,721)	(27)	-	(9,795)
Closing net book value		**19,745**	**32,356**	**169**	**838**	**53,108**
As at 1 June 2019						
Cost		30,310	77,177	642	838	108,967
Accumulated depreciation		(10,565)	(44,821)	(473)	-	(55,859)
Net book value		**19,745**	**32,356**	**169**	**838**	**53,108**
Year ended 31 May 2020						
Opening net book value		19,745	32,356	169	838	53,108
Additions		188	2,883	-	2,783	5,854
Transfers		373	2,584	-	(2,957)	-
Disposals		(334)	(838)	(1)	-	(1,173)
Impairment[1]		(383)	(533)	-	(109)	(1,025)
Foreign exchange movement		42	108	-	(1)	149
Depreciation		(2,148)	(7,859)	(24)	-	(10,031)
Closing net book value		**17,483**	**28,701**	**144**	**554**	**46,882**
As at 31 May 2020						
Cost		30,110	79,006	615	554	110,285
Accumulated depreciation and impairment		(12,627)	(50,305)	(471)	-	(63,403)
Net book value		**17,483**	**28,701**	**144**	**554**	**46,882**

[1] Impairment of leasehold improvements and plant and equipment assessed as part of the annual impairment process (refer note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Policies

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

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

Property, plant and equipment and other intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Previously recognised impairment losses on property, plant and equipment and other intangible assets may be reversed if there is a positive change in the estimates of the recoverable amount, but only to the extent of the prior cumulative impairment loss.

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

Depreciation

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

Leasehold improvements	5 - 20 years
Computer and office equipment	3 - 5 years
Motor vehicles including mobile dental units	3 - 20 years
Plant and equipment	5 - 20 years

Judgements

Management must apply judgement when evaluating:

- the expected useful lives of property, plant and equipment;
- whether subsequent expenditure on the asset increases the future economic benefits to be obtained from that asset; and
- whether any indicators of impairment have occurred which might require impairment testing of the current carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. INTANGIBLE ASSETS

	NOTE	SOFTWARE AND OTHER INTANGIBLES $000	WORK IN PROGRESS $000	TOTAL $000
As at 1 June 2018				
Cost		13,214	1,302	14,516
Accumulated amortisation		(5,954)	-	(5,954)
Net book value		**7,260**	**1,302**	**8,562**
Year ended 31 May 2019				
Opening net book value		7,260	1,302	8,562
Acquired through acquisition of businesses	8	18	-	18
Additions		89	4,509	4,598
Transfers		5,039	(5,039)	-
Disposals		2	-	2
Impairment		-	(240)	(240)
Foreign exchange movement		(71)	(19)	(90)
Amortisation charge		(1,969)	-	(1,969)
Closing net book value		**10,368**	**513**	**10,881**
As at 1 June 2019				
Cost		18,005	513	18,518
Accumulated amortisation		(7,637)	-	(7,637)
Net book value		**10,368**	**513**	**10,881**
Year ended 31 May 2020				
Opening net book value		10,368	513	10,881
Additions		399	821	1,220
Transfers		1,078	(1,078)	-
Disposals		(5)	-	(5)
Impairment		-	(62)	(62)
Foreign exchange movement		23	5	28
Amortisation charge		(2,179)	-	(2,179)
Closing net book value		**9,684**	**199**	**9,883**
As at 31 May 2020				
Cost		19,449	199	19,648
Accumulated amortisation		(9,765)	-	(9,765)
Net book value		**9,684**	**199**	**9,883**

Policies

Software and other intangibles

Software assets, licences and costs of developing computer systems are recorded as intangible assets when it is probable that future economic benefits will accrue to the Group. Computer software costs recognised as intangible assets are amortised over their estimated useful lives. Costs associated with maintaining computer software are recognised as an expense as incurred.

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

Other intangible assets include copyright and licence agreements which are amortised over their estimated useful lives.

Amortisation

Amortisation of other intangible assets, is calculated on a straight line basis to allocate the cost of the assets over their expected useful lives. For major classes of intangible assets, the expected useful lives are:

Computer software	3 - 10 years
Copyright and licence agreements	5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE AND OTHER RECEIVABLES

	2020 $000	2019 $000
Current		
Trade receivables	3,547	5,338
Prepayments	886	1,129
Other receivables	4,461	2,870
	8,894	**9,337**
Non-current		
Owing from Practice Partnering Scheme	312	330
Other non-current receivables	581	652
	893	**982**
Impairment of trade receivables		
Neither past due or impaired	3,547	5,338
Impaired	1,358	903
Gross trade receivables	4,905	6,241
Provision for impairment	(1,358)	(903)
	3,547	**5,338**

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

	2020 $000	2019 $000
Opening balance	903	648
Provision for doubtful debts	590	264
Receivables written off during the year as uncollectable	(141)	-
Foreign exchange movement	6	(9)
Closing balance	**1,358**	**903**

Policies

Trade receivables are amounts outstanding from sales arising in the normal course of business, which normally have 30 to 90 day terms.

Trade receivables and contract assets (refer note 4) are initially recognised at fair value (generally their original invoice amount) and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest-rate. The amount of the provision is recognised in the Income Statement.

Concentration

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

COVID-19

The provision for impairment includes an estimate of $0.2m for receivables which may not be collected due to patients suffering economic hardship due to COVID-19. Other receivables include $2.76m relating to receivable from the Australian Government for JobKeeper payment scheme (refer note 6).

21. INVENTORIES

	2020 $000	2019 $000
Raw materials, consumables and finished goods	7,600	8,254
Provision for obsolete inventory	(373)	-
	7,227	**8,254**

Policies

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

COVID-19

The Group has assessed the impact of practice closures in both New Zealand and Australia during the COVID-19 lockdown period on inventory held at balance date. A provision for items which may not be utilised within the network prior to expiry date has been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. TRADE AND OTHER PAYABLES

	2020 $000	2019 $000
Current		
Accounts payable	6,511	9,203
Sundry creditors and accruals	9,799	4,603
Employee entitlements	16,796	14,245
	33,106	**28,051**
Non-current		
Employee entitlements	746	763
Practice partnering scheme - contractual entitlement	1,333	1,414
	2,079	**2,177**

Policies

Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 90 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate.

Short-term employee benefits

Employee entitlements to salaries, wages and annual leave, to be settled within 12 months of reporting date represent present obligations resulting from employees' services provided up to the reporting date and are calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

Long-term employee benefits

Long-term benefits for the Group include long service leave which vests to the employee after varying periods of service. The Group's net obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. All actuarial gains and losses are recognised in the Income Statement.

Practice Partnering Scheme

A Practice Partnering Scheme has been established to provide an opportunity for eligible clinicians to share in the ongoing growth of a practice or set of practices by receiving a share of the profits generated at that practice.

Eligible clinicians make an initial cash contribution which provides them with a contractual entitlement to receive a stated proportion of the profit of the practice, with the proportion being based on a contractually agreed percentage. Their profit share is paid to them bi-annually and is recognised in the Income Statement under "Practice Partnering Scheme – profit share".

The eligible clinician has the right to require the Group to "buy-out" the contractual entitlement after an agreed period based on an agreed formula. The initial cash contribution is recognised as a non-current financial liability called "Practice Partnering Scheme – contractual entitlement". This liability is recognised at fair value, being the present value of the exercise price of the contractual entitlement. The present value is calculated using a discount rate of 1.54% (2019: 2.93%). The contractual liability is revalued at fair value with any movement in the revaluation recognised through the Income Statement in fair value movements.

Participation in the Practice Partnering Scheme does not give rise to any legal interest in the relevant practice or any assets of the Group.

COVID-19

Sundry creditors and accruals includes $1.96m deferred income relating to the New Zealand Government COVID-19 wage subsidy (refer note 6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. PROVISIONS

	2020 $000	2019 $000
Opening balance at start of year	830	899
Foreign exchange movement	8	(8)
Provisions made during the year	529	89
Fair value movement	33	(9)
Provisions used during the year	-	(141)
Closing balance at end of year	**1,400**	**830**
Current	174	94
Non-current	1,226	736
	1,400	**830**

Policies	Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.
Make good	All current and prior year provisions are for make good. These reflect the contractual obligation included in some premises leases to reinstate premises to their original condition at the end of the lease term.

24. RELATED PARTY INFORMATION

During the year, the Group had related party transactions with its subsidiaries (see note 9) and with its directors and executive officers.

Key Management Compensation

Key management compensation for the years ended 31 May 2019 and 2020 is set out below. Key management consists of the Abano Executive Leadership Group.

	2020 $000	2019 $000
Short term benefits	2,220	1,639
	2,220	**1,639**

25. COMMITMENTS AND CONTINGENCIES

As at 31 May 2020 the Group has no capital commitments in relation to the purchase of plant and equipment and software.

As at 31 May 2020, the Group had bank guarantees issued by CBA totalling $2.0m (2019: $2.0m). These are provided to landlords when required in respect of leased premises.

NON-CANCELLABLE OPERATING LEASES

The Group leases premises, motor vehicles and plant and equipment. Operating leases held over some of the properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor. There are no renewal options or options to purchase in respect of motor vehicles or plant and equipment held under operating leases.

On 1 June 2019, the Group adopted NZ IFRS 16 and has recognised right-of-use assets for these leases, except for short term and low-value leases, see note 26 for further information.

	2020 $000	2019 $000
Non-cancellable operating lease obligations		
Not later than one year	-	14,461
Later than one year, not later than five	-	29,363
Later than five years	-	4,322
	-	**48,146**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONTINGENT LIABILITIES

From time to time, the Group is exposed to contingent liabilities which arise from the ordinary course of business, including:

- Losses which might arise from litigation.
- Investigations or reviews by third parties into either industry wide or Abano specific matters.

The Group establishes provisions for claims and proceedings that constitute a present obligation when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of such obligation can be made. As of 31 May 2020 the only legal proceedings pending are those for which the Group has determined that the possibility of a material outflow is remote.

Optical Superstore case

On 12 September 2019, a decision in the appeal of the Commissioner of State Revenue v The Optical Superstore Pty Ltd (Optical Superstore), the Victorian Supreme Court of Appeal found Optical Superstore was liable for payroll tax under Victorian law, on distributions made to practitioner optometrists from its trust account under an occupancy agreement.

Abano has reviewed the judgement and publicly available information, taken legal advice and has come to the conclusion that there are significant differences between the Optical Superstore fact set and the structure and operation of the typical Facilities and Administrative Services Agreements used by Maven Dental Group Pty Limited (Maven).

The Directors, in light of the advice received, do not consider the Optical Superstore decision will have any material impact on Maven's operations or financial performance. To comply with financial reporting requirements, the Board's assessment on a probability weighted basis any exposure, were it to occur, would be in the range of nil to $2.1m.

Moffet case

The Scheme Booklet issued by the Company in February 2020 referred to an Australian Court decision, Moffet v Dental Corporation Australia Pty Ltd (Dental Corporation) and the pending appeal of that decision. On 16 July 2020, a decision in the appeal of Moffet v Dental Corporation was issued by the Federal Court of Australia. In early August 2020 Dental Corporation formally commenced its High Court appeal of the Moffet decision.

Having reviewed the judgement and publicly available information, Abano's view is that there are significant differences between the Moffet arrangement and the structure and operation of the typical Facilities and Administrative Services Agreements used by Maven. Accordingly, Abano does not consider the Moffet decision to have any material implications on Maven's operations or financial performance and the possibility of a material outflow is low.

26. ACCOUNTING STANDARDS ADOPTED IN CURRENT YEAR

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 May 2019.

There was one new standard applied during the period which had a material impact. This note explains the impact of the adoption of NZ IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 June 2019.

• NZ IFRS 16: Leases

Transition

The Group has adopted NZ IFRS 16 Leases retrospectively from 1 June 2019, but has not restated comparatives for the 2019 year, as permitted under the specific transition provisions in the standard. The reclassification from the new leasing standard are therefore recognised in the opening balance sheet on 1 June 2019.

Lease liabilities are measured at the present value of remaining lease payments. The weighted average incremental borrowing rate applied to the lease liabilities was 5.41%, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Leases entered into and identified by the Group are property and motor vehicle leases. The associated right-of-use assets for these leases were measured on a retrospective basis.

On transition, the Group applied the following practical expedients:

- the use of hindsight to determine the lease term where the lease contains options to exercise rights of renewal out to the final term of the lease; and
- to not recognise right-of-use assets and liabilities for short-term leases with lease terms ending within a 12 month period. The cost in relation to these leases are recognised in the Income Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. ACCOUNTING STANDARDS ADOPTED IN CURRENT YEAR (CONTINUED)

For comparative period analysis purposes, the following tables set out the impact of the transition to NZ IFRS 16 on the Balance Sheet, Income Statement and operating cash flows. The adoption of the accounting standard has affected the following items of the income statement and statement of cash flows:

- In the income statement 'finance expenses' includes interest expense associated with lease liabilities, and 'depreciation and amortisation' includes depreciation associated with right-of-use assets.
- In the statement of cash flows, lease payments are now split between principal repayments classified within 'financing activities' and interest repayments classified within 'operating activities'. Previously lease payments were included within 'payments to suppliers and employees' within operating activities.

In addition to the opening Balance Sheet lease liabilities and right-of-use asset impact on transition, the Group has also recognised a deferred tax asset of $29.5m and a deferred tax liability of $26.7m, with a cumulative net impact to retained earnings of $2.8m.

Policies

The Group leases mainly relate to properties which were classified as operating leases until 31 May 2019. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 1 June 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable; and
- variable lease payment that are based on an index or a rate.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any restoration costs. These assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

Payments associated with short-term leases and leases of low value assets are recognised on a straight-line basis as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less.

Right-of-use assets are initially recognised at cost less any unamortised lease incentives and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

When considering lease term, the Group applies judgement to determine whether it is reasonably certain that an extension option will be exercised. The majority of the Group's leases give the right to renew the leases at the end of their lease term and the Group has assumed that the majority of these leases will be extended.

The following tables show the movement and analysis in relation to adoption of NZ IFRS 16.

Right-of-use assets

	2020 $000
Right-of-use asset recognised at 1 June 2019	91,690
Additions	3,750
Depreciation	(11,325)
Impairment[1]	(1,331)
Carrying amount 31 May 2020	**82,784**
Cost	95,084
Accumulated depreciation and impairment	(12,300)
Carrying amount 31 May 2020	**82,784**

1 Impairment of right-of-use assets assessed as part of the annual impairment process (refer note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. ACCOUNTING STANDARDS ADOPTED IN CURRENT YEAR (CONTINUED)

Lease liabilities	2020 $000
Operating lease commitments disclosed as at 31 May 2019	48,146
The above discounted using the lessee's incremental borrowing rate at the date of initial application	37,353
Recognised exemption for:	
Short-term or low value leases not classified under NZ IFRS 16 leases	(171)
Add/(less): adjustments as a result of a different treatment of extension and termination options	64,195
Lease liability recognised as at 1 June 2019	**101,377**
Additions	4,295
Interest for the year	5,210
Lease payments made	(15,257)
Carrying amount 31 May 2020	**95,625**
Current	14,260
Non-current	81,365
Total	**95,625**

The following amounts relating to leases are recognised in the Income Statement:

	2020 $000
Depreciation	11,325
Impairment	1,331
Interest expense (included in finance expenses)	5,210
Short term and low value leases	610
	18,476

The table below provides further detail as to the impacts of NZ IFRS 16 on the Group financial statements:

	2020 $000 Pre-NZ IFRS 16 classification	2020 $000 NZ IFRS 16 adjustments	2020 $000 NZ IFRS 16 classification
Revenue	244,115	-	244,115
Patient consumables and cost of products sold	(39,317)	-	(39,317)
Employee benefits	(151,408)	-	(151,408)
Depreciation and amortisation	(12,210)	(11,325)	(23,535)
Occupancy costs	(22,481)	15,257	(7,224)
Acquisition and transaction costs	(4,274)	-	(4,274)
Other operating expenses	(24,403)	-	(24,403)
Other operating income	10,881	-	10,881
Operating profit	**903**	**3,932**	**4,835**
Finance income	59	-	59
Finance expenses	(11,403)	(5,210)	(16,613)
Fair value movements	5,532	-	5,532
Foreign exchange loss	(68)	-	(68)
Practice partnering scheme - profit share	(288)	-	(288)
Loss on sale of business	(28)	-	(28)
Impairment of other assets	(3,185)	(1,331)	(4,516)
Impairment of goodwill	(40,995)	-	(40,995)
Profit/(loss) before income tax	**(49,473)**	**(2,609)**	**(52,082)**
Income tax benefit	2,594	772	3,366
Profit/(loss) for the year	**(46,879)**	**(1,837)**	**(48,716)**
Net cash generated from operating activities	**13,466**	**10,047**	**23,513**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. SUBSEQUENT EVENTS

Scheme Implementation Agreement

On 31 August 2020, Abano announced that it had entered into a Scheme Implementation Agreement[1] under which Adams NZ Bidco Limited (Bidco) has agreed to acquire 100% of the fully paid shares in Abano Healthcare Group Limited for $4.45 per share, by way of a scheme of arrangement (Scheme). Bidco is an entity that will be owned by BGH Capital and Ontario Teachers' Pension Plan Board.

The Scheme is subject to the approval of Abano shareholders, the New Zealand High Court, and other customary conditions, but does not include a right for Bidco to terminate the Scheme if a Material Adverse Change occurs to or in respect of Abano. These conditions are set out in the Scheme Implementation Agreement which was released to the NZX on 31 August 2020 and is available on the Company and NZX websites. Abano shareholder approval will be sought at a special meeting of shareholders expected to be held in November 2020.

Sale of practices

Since 31 May 2020, the Group has closed one practice in New Zealand and divested two practices, one each in New Zealand and Australia. The value of the assets and liabilities of the practices divested post balance date are not considered material.

Victoria, Australia Lockdown Restrictions

Efforts to contain COVID-19 in Victoria escalated and on 2 August 2020, the Victorian Government declared a State of Disaster and exercised its powers under state legislation to increase efforts to contain and slow the spread of COVID-19 in the community. Metropolitan Melbourne moved immediately to stage 4 restrictions and Regional Victoria moved to stage 3 restrictions from 6 August. The closure or restricted services able to be provided by dental practices in Victoria during August has resulted in an estimated loss of revenue of $0.4m for the month of August 2020. The restrictions in Victoria remain in place at 31 August 2020.

Auckland, New Zealand Lockdown Restrictions

On 11 August 2020 community transmission of COVID-19 was detected in the Auckland region resulting in a move to Level 3 restrictions for Auckland and a move to Level 2 restrictions for the rest of New Zealand. The Auckland dental practices, except for three providing emergency dental care, were closed until midnight on 30 August 2020, and the rest of the New Zealand dental practices operating under Level 2 restrictions resulting in estimated loss of revenue of $2.9m during the period 11 to 31 August 2020. Auckland practices will re-open on 31 August 2020 at Level 2 restrictions.

The Group considers the impact of the above two events to be immaterial for the 2021 financial year.

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ADDITIONAL STATUTORY INFORMATION

INTERESTS REGISTER

As at 31 May 2020, the following directors had made general disclosures in the interests register of the company. Notices given during the financial year ended 31 May 2020 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between the Company and its subsidiaries and the disclosed entity.

DIRECTOR	ENTITY	INTEREST
M N Allen[1]	Breakwater Consulting Limited	Director
	China Construction Bank (New Zealand) Limited	Director
	Investore Property Limited	Chairman
	Ngai Tahu Tainui Go Bus Holdings Limited and subsidiaries	Director
	Quaystreet Asset Management Limited	Chairman
	Tainui Group Holdings Limited	Advisor
	Taumata Plantations Limited	Director
Dr T L Batten	Accident Compensation Corporation	Board Member
	ASB Bank Limited	Spouse is a director of ASB Bank Limited
	Medibank Private Limited	Director/Shareholder
	National Institute of Water and Atmospheric Research	Director
M R Boyte	Eureka Group Holdings Limited	Executive Chairman
	Hillgrove Resources Limited	Director
	National Tyre & Wheel Limited	Chairman
	Unity Pacific Funds Management Limited	Director
P J Dunphy	Dangerous Goods Compliance Limited*	Director
	FSF Management Company Limited	Director
	Transpower New Zealand Limited	Chairman
Dr G Mansberg	Auroracare Pty Limited	Director
	ESK Care Pty Limited	Director
	Medibank Private Limited	Shareholder
M Schubert[2]	Auditor Oversight Committee – Advisory Committee to the Financial Markets Authority*	Chairman
	Homecare Medical (New Zealand) Limited Partnership*	Director
	Mimomax Wireless Limited*	Chairman
	Procare Charitable Foundation*	Trustee
	Procare Network Limited*	Director
	Silver Fern Farms Limited*	Director

[1] Resigned on 30 June 2020.

[2] Appointed on 21 May 2020.

ADDITIONAL STATUTORY INFORMATION

DIRECTORS' SHARE DEALINGS

During the year the directors named below disclosed the following acquisition of relevant interests in ordinary shares of the Company.

DIRECTOR	DATE OF TRANSACTION	CONSIDERATION PER SECURITY	NUMBER OF SECURITIES ACQUIRED	NATURE OF RELEVANT INTEREST
M N Allen	-	-	-	No transactions during the year.
Dr T L Batten	-	-	-	No transactions during the year.
M R Boyte	3 Sep 2019	$3.93	258	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2019 final dividend.
	9 Sep 2019	$3.88	3,836	Purchase of ordinary shares through the market pursuant to the Directors Share Plan.
D Chan[1]	3 Sep 2019	$3.93	492	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2019 final dividend.
P J Dunphy	3 Sep 2019	$3.93	514	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2019 final dividend.
T D Janes[2]	3 Sep 2019	$3.93	861	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2019 final dividend.
Dr G Mansberg[3]	3 Sep 2019	$3.93	202	Participation in the Dividend Reinvestment Plan (DRP) in respect of the 2019 final dividend.
M Schubert[4]	-	-	-	No transactions since appointment.

1 D Chan resigned on 25 November 2019.

2 T D Janes resigned on 25 November 2019.

3 Dr G Mansberg's shares are held indirectly in her capacity as a trustee of the Ginni Trust.

4 M Schubert was appointed on 21 May 2020.

DIRECTORS' SHAREHOLDINGS

As at 31 May 2020

	BENEFICIAL INTEREST	
	2020	**2019**
Dr T L Batten	5,196	5,196
M R Boyte	16,983	12,889
P J Dunphy	28,460	27,946
Dr G Mansberg	10,266	10,064

ADDITIONAL STATUTORY INFORMATION

REMUNERATION OF DIRECTORS

Remuneration and other benefits.	Director Fee[1]	Committee Chair	2020 $	2019 $
M N Allen[2]	69,713	9,195	78,908	17,875
E K van Arkel[3]	-	-	-	29,333
Dr T L Batten	69,713	10,700	80,413	78,382
M R Boyte	87,263	-	87,263	83,077
D Chan[4]	34,917	-	34,917	71,500
P J Dunphy	139,425	-	139,425	130,296
T D Janes[4]	34,917	8,742	43,659	108,527
Dr G Mansberg	69,713	-	69,713	71,500
M Schubert[5]	2,155	539	2,694	-

1 In response to COVID-19, the Directors agreed to a 20% reduction in Directors' fees for the period 16 April to 15 July 2020.

2 Appointed on 1 March 2019.

3 Resigned on 9 October 2018.

4 Resigned on 25 November 2019.

5 Appointed on 21 May 2020.

SUBSIDIARY COMPANY DIRECTORS

The following persons held the office of director in subsidiary companies during the year. Employee directors of subsidiary companies appointed by the Group do not receive directors' fees or other benefits in their capacity as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bands for remuneration disclosed under Remuneration of Employees.

COMPANY	DIRECTORS				
Abano Dental Limited	R G Keys	A R Tapper	R L Clark		
Abano Radiology Limited[1]	R G Keys	A R Tapper			
D & R Dental Pty Limited[2]	S E R Harmsworth[2]	C M Williams			
Lumino Dental Limited	R G Keys	A R Tapper	R L Clark		
Maven Dental Group Pty Limited	R G Keys	S E R Harmsworth[3]	A R Tapper	R L Clark	D Surlan
Simon Hinckfuss Pty Limited[4]	S E R Harmsworth[4]	C M Williams			

1 Abano Radiology Limited was amalgamated with Abano Healthcare Group Limited on 9 September 2019.

2 S E R Harmsworth resigned on 2 July 2019. D & R Dental Pty Limited was deregistered on 19 September 2019.

3 S E R Harmsworth resigned on 5 July 2019.

4 S E R Harmsworth resigned on 2 July 2019. Simon Hinckfuss Pty Limited was deregistered on 11 August 2019.

ADDITIONAL STATUTORY INFORMATION

REMUNERATION OF EMPLOYEES

The number of employees (excluding directors) within the Group who received remuneration and benefits above $100,000 are indicated in the following table:

	GROUP	
	2020	2019 Restated[1]
$100,001 - $110,000	20	17
$110,001 - $120,000	15	22
$120,001 - $130,000	12	10
$130,001 - $140,000	16	12
$140,001 - $150,000	4	7
$150,001 - $160,000	5	4
$160,001 - $170,000	6	6
$170,001 - $180,000	1	1
$180,001 - $190,000	3	3
$190,001 - $200,000	2	1
$200,001 - $210,000	2	3
$210,001 - $220,000	-	1
$240,001 - $250,000	1	2
$250,001 - $260,000	-	1
$270,001 - $280,000	-	1
$290,001 - $300,000	-	1
$300,001 - $310,000	1	1
$310,001 - $320,000	1	-
$320,001 - $330,000	-	1
$330,001 - $340,000	-	1
$360,001 - $370,000	1	-
$380,001 - $390,000	1	-
$410,001 - $420,000	-	1
$580,001 - $590,000	1	-
$750,001 - $760,000	1	-
$860,001 - $870,000	-	1
$1,390,001 - $1,400,000	-	1

[1] The comparative for 2019 has been restated to include Employer contributions for Kiwisaver in New Zealand and superannuation in Australia.

SPREAD OF SECURITY HOLDERS

As at 12 August 2020

SIZE OF SHAREHOLDING	NUMBER OF HOLDERS	TOTAL SHARES HELD	% OF SHARES
1 to 4,999	2,728	3,934,324	14.97%
5,000 to 9,999	442	2,897,244	11.02%
10,000 to 49,999	331	6,076,512	23.12%
50,000 to 99,999	27	1,794,737	6.83%
100,000 to 499,999	20	4,630,043	17.62%
500,000 to 999,999	1	794,893	3.02%
1,000,000 or more	3	6,154,485	23.42%
Total	**3,552**	**26,282,238**	**100%**

ADDITIONAL STATUTORY INFORMATION

SHAREHOLDER INFORMATION

Twenty largest security holders as at 12 August 2020

	ORDINARY SHARES	% HOLDING
New Zealand Depository Nominee Limited (A/C 1 Cash Account)	2,343,610	8.95%
Forsyth Barr Custodians Limited (1-Custody)	2,098,808	8.01%
HSBC Nominees (New Zealand) Limited - NZCSD (HKBN90)	1,712,067	6.54%
Accident Compensation Corporation - NZCSD (ACCI40)	794,893	3.04%
Custodial Services Limited (A/C 1)	382,559	1.46%
Yeow Ann Chiam & Sok Eng Boey	360,864	1.38%
Forsyth Barr Custodians Limited (Account 1 E)	329,542	1.26%
ANZ Custodial Services New Zealand Limited - NZCSD (PBNK90)	320,064	1.22%
FNZ Custodians Limited	305,914	1.17%
Custodial Services Limited (A/C 3)	293,853	1.12%
Lloyd James Christie	289,065	1.10%
Grant Michael Novak, Jacqueline Francesca Vervoort & NKS Trustees Limited	285,691	1.09%
Custodial Services Limited (A/C 4)	242,208	0.92%
JBWere (NZ) Nominees Limited (NZ Resident A/C)	234,689	0.90%
Custodial Services Limited (A/C 2)	228,897	0.87%
JP Morgan Chase Bank NA NZ Branch-Segregated Clients Acct - NZCSD	204,109	0.78%
Richard George Keys	192,980	0.74%
Hoe Ang Lim, Paul Joseph Goodwin & Siew Choo Khoo	181,279	0.69%
Jarden Custodians Limited (A/C 7)	180,000	0.69%
Custodial Services Limited (A/C 18)	173,364	0.66%
	11,154,456	42.59%

SUBSTANTIAL PRODUCT HOLDERS

The following substantial product holder information is given pursuant to section 293 of the Financial Markets Conduct Act 2013. As at 31 May 2020, details of the Substantial Product Holders in the Company and their relevant interests in the Company's ordinary shares are shown in the table below. The total number of listed voting securities (ordinary shares) of the Company as at 31 May 2020 was 26,282,238.

	DATE OF NOTICE	NUMBER OF SHARES
Forsyth Barr Investment Management Limited	8 Apr 20	1,621,543

CORPORATE GOVERNANCE

At Abano, we are committed to conducting business in the right way, ethically and in line with our legal and regulatory obligations, to ensure we add long term value to our staff, contractors, shareholders and other stakeholders. We expect high levels of accountability and behaviour from all officers and staff.

Our approach to corporate governance and key governance documents are available for viewing on the Abano website www.abano.co.nz/governance.

We take a continuous improvement approach to corporate governance and policies are reviewed on a regular basis in line with best practice. We have adopted the recommendations in the NZX Corporate Governance Code 2019 (the Code) and the Board considers that Abano's governance practices for the year are appropriately aligned with the Code.

A summary of our governance actions and performance against each of the Principles in the Code in FY20 is detailed below. We have identified any areas where we are not yet fully compliant with the Code and provided an explanation as to our progress.

PRINCIPLE 1: CODE OF ETHICAL BEHAVIOUR

We are committed to ensuring the highest ethical standards are maintained by Directors, staff, contractors and suppliers in all activities conducted by the Group or in the interests of the Group. These standards, as well as guiding principles, are set out in Abano's Code of Conduct. Additional guidance for Directors is provided in the Board Charter.

We have a 'speak up' culture and a Whistle Blowing Policy which provides avenues for employees to raise concerns if they believe there are issues.

We also have a Share Trading Policy to mitigate the risk of insider trading in Abano securities by employees and directors. Additional trading restrictions apply to Restricted Persons including directors and certain employees. Details of Directors' share dealings are on page 70 of the 2020 Financial Statements.

Policies are made available to staff through the business' intranet and online platforms. They are communicated to staff through internal newsletters and more formal training is being planned as part of a review of onboarding processes.

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE

The Abano Board is committed to acting in the best interests of the Company and shareholders.

The Board Charter sets out the structure of the Board and the procedures for the nomination, resignation and removal of Directors. The Board Policy Manual acts as a reference for Directors in regards to Board procedures, policies and matters of governance. It outlines the responsibilities and roles of the Chairman and Directors and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board. The Company has adopted a Delegated Authorities Policy which sets out all formal delegations to management and is reviewed annually.

Director Appointment

Membership, rotation and retirement of Directors is determined in accordance with the Company Constitution and NZX Listing rules.

While the nomination process is the responsibility of the whole Board, the Governance and Remuneration Committee is responsible for identifying and recommending candidates, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, qualifications, judgement and the ability to work with other Directors. Reference checks are carried out on all candidates and key information about candidates is provided to shareholders to assist their decision as to whether or not to elect or re-elect a candidate. New Board members enter into written agreements with Abano.

As at 31 May 2020, the Abano Board consisted of five Independent Directors. In line with the Board's succession plan, Michael Schubert was appointed on 21 May 2020, to replace Michael Allen who retired on 30 June 2020. Both Trevor Janes and Danny Chan retired from the Board following the 2019 Annual Meeting.

In order for a Director to be independent, the Board has determined that he or she must not be an executive of Abano Healthcare Group Limited and must have no disqualifying relationships. Independence will be determined by the NZX Listing Rules and having had regard to the factors described in the NZX Corporate Governance Code.

Abano's Directors offer a wide range of complementary skills, experience and expertise in areas including the operation and management of large complex organisations, capital markets, healthcare businesses, governance, business strategy, finance and Australian markets. They provide value by making quality contributions to corporate governance matters, strategic thinking, analytical and clinical processes, risk and guidance to enable management to increase profitable growth in the years ahead. Together, they reflect diversity, balance, cohesion and match the demands facing the Group.

CORPORATE GOVERNANCE

PRINCIPLE 2: BOARD COMPOSITION AND PERFORMANCE (Continued)

Profiles of each Director are set out on the Abano website. Director's interests are disclosed on page 69 of the 2020 Financial Statements.

The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board's expertise, has a personality that is compatible with the other Directors and has a strong understanding of the market and the wider macro environment.

All Directors are either members of the Institute of Directors or the Australian Institute of Company Directors.

The Company encourages all Directors to undertake appropriate training and education so they remain current with trending issues. In addition, all Directors are regularly updated on relevant industry and Company issues, including briefings from key executives and ongoing presentations to the Board.

All Directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at Board meetings, or other areas as they consider appropriate.

The Board Committees and Directors, subject to the approval of the Chairman, have the right to seek independent professional advice at the Company's expense, to enable them to carry out their responsibilities.

The Company has arranged a policy of Directors' and Officers' liability insurance which is underwritten by Berkshire Hathaway Speciality Insurance (BHSI). This ensures that any monetary loss suffered by Directors and Officers, as a result of actions undertaken by them as Directors or Officers, is capped to specified limits (subject to legal requirements or restrictions).

The Board has a policy of regular evaluation of individual and collective performance, together with a regular review of the skill sets and succession planning required to govern the business. A formal independent review is conducted every three years. The last external review was in 2017, with the next review expected to be completed during FY21.

The Board supports the separation of the roles of Chairman and CEO and the appointment of an Independent Chairman. It is also the practice of the Company that the Chairman and Deputy Chairman retire and offer themselves for re-election (should they so desire) by the Board after each Annual Meeting. Pip Dunphy was re-elected Chair and Murray Boyte was re-elected Deputy Chair following the Annual Meeting held in November 2019.

Diversity

Diversity is defined as a variety of characteristics that make individuals unique. The key aspects that Abano is seeking are diversity of thinking and skills as these attributes are most likely to assist Abano in delivering better outcomes for its stakeholders.

Diversity of thinking and skills can arise through a number of different characteristics including but not limited to the following; gender, ethnic background, religion, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. Different backgrounds, communication styles, life skills and interpersonal skills are also considered of value in building diverse teams.

Abano has adopted a Diversity policy which outlines Abano's commitment to providing an inclusive and diverse environment throughout the company. The Board believes the principles in the Diversity policy were upheld in FY20. Abano is working towards setting measurable objectives to support its focus on diversity and inclusion.

As at 31 May 2020, females represented 27% (FY19: 29%) of Directors and Officers of the Company (an Officer is a person who is within two tiers of reporting to the Board).

	FY20		FY19	
	Male	**Female**	**Male**	**Female**
Directors[1]	3	3	4	3
Officers	5	-	6	1
Total	**8**	**3**	**10**	**4**

1 Michael Allen retired from the Board on 30 June 2020, reducing the number of male directors to two.

CORPORATE GOVERNANCE

PRINCIPLE 3: BOARD COMMITTEES

The Board has established a number of Committees to assist in the execution of the Board's responsibilities. The use of Committees allows issues requiring detailed consideration to be dealt with separately by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its Committees and determines their responsibilities.

The Committees meet as required and have terms of reference (Charters), which are approved and reviewed by the Board.

Minutes of each Committee meeting are forwarded to all members of the Board, who are all entitled to attend any Committee meeting. Each Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

The membership and performance of each Committee is reviewed annually.

The standard Committees of the Board as at 31 May 2020 were:

Risk Assurance and Audit Committee (RAAC)

Michael Schubert (Chair), Michael Allen, Dr Tracey Batten and Pip Dunphy.

Governance and Remuneration Committee (GRC)

Dr Tracey Batten (Chair), Murray Boyte, Pip Dunphy and Dr Ginni Mansberg.

From time to time, special purpose Committees are formed to review and monitor specific projects. A Project Committee, comprising independent directors, was formed in FY20 to consider the Expressions of Interest in relation to the business, both before and after the original Scheme of Arrangement was terminated and to oversee the Due Diligence original Scheme process.

Project Committee

Pip Dunphy (Chair), Michael Allen, Murray Boyte, Trevor Janes (retired from the Board on 25 November 2019) and Dr Tracey Batten (from 29 April 2020).

In the case of a takeover offer, Abano will form an Independent Takeover Committee to oversee disclosure and response. Protocols and guidelines are included in the Board Takeover Manual (not publicly available).

Meeting Attendance

The table below sets out Director attendance at Board and Committee meetings during FY20. Board meetings are usually held monthly, with other meetings to deal with certain matters arising from time to time being held when necessary.

A significant amount of additional time and resource was required and provided by Directors in FY20, in particular in relation to the capital structure transaction process, the original Scheme, the evaluation of options following termination of the original Scheme and Abano's pandemic response. In total there were 39 Board meetings (compared to 10 Board Meetings in a normal year), plus an additional 29 Project Committee Meetings.

	Board	RAAC	GRC	Project Committee
Total number of meetings held	**39**	**5**	**3**	**29**
Pip Dunphy (Board Chair)	39	5	2	29
Murray Boyte (Board Deputy Chair)	37	5	3	24
Dr Tracey Batten (Chair GRC)	39	5	3	13
Dr Ginni Mansberg	35	3	3	4
Michael Schubert[1] (Chair RAAC from 21 May 2020)	2	-	-	-
Danny Chan[2]	13	3	1	-
Trevor Janes[3]	16	3	1	23
Michael Allen[4]	39	5	2	25

1 Michael Schubert was appointed to the Board on 21 May 2020.
2 Danny Chan retired on 25 November 2019 following the 2019 Annual Meeting.
3 Trevor Janes retired on 25 November 2019 following the 2019 Annual Meeting.
4 Michael Allen retired on 30 June 2020.

ABANO HEALTHCARE GROUP ANNUAL REPORT 2020

CORPORATE GOVERNANCE

PRINCIPLE 4: REPORTING AND DISCLOSURE

Abano's Directors are committed to keeping investors and the market informed of all material information about the Company and its performance, in a timely manner. In addition to all information required by law, Abano also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed.

Abano has a Market Disclosure Policy which governs the release to the market of all material information that may affect the value of the Company. This is reviewed every two years and was last reviewed in May 2020.

Key corporate governance policies are available on Abano's website www.abano.co.nz.

Financial reporting

For the financial year ended 31 May 2020, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013. The Chief Executive and Chief Financial Officer have confirmed in writing that Abano's external financial reports present a true and fair view in all material aspects.

Non-financial reporting

Abano believes it is important for shareholders to have access to non-financial information about the Company. Abano discusses its strategic objectives and its progress against these in the Chair and CEO's commentary in shareholder reports. Further information on Abano's business model and operations is provided in shareholder presentations and reports, and on Abano's website. Abano's key governance policies are on the website to provide shareholders with more information on governance practices at Abano.

The Company has identified four pillars which it believes are essential for the long term sustainability of the company and support Abano's licence to operate. These are:

- Enhance the patient experience
- Deliver operational and clinical excellence
- Develop an engaged and capable organisation
- Profitable growth.

PRINCIPLE 5: REMUNERATION

Remuneration of Directors and senior executives is the key responsibility of the Governance and Remuneration Committee. The framework for the determination and payment of Directors' and senior executives' remuneration is set out in the Directors and Senior Executives Remuneration Policy. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market for senior management positions, Directors and Board positions.

Executive Remuneration

Executive remuneration comprises a fixed base salary, a variable short term bonus payable annually and a new LTI scheme currently being developed for qualifying executives. Bonuses are paid against targets agreed with executives at the commencement of the period, and are based on profitability, growth and personal objectives.

Details of executives' remuneration and entitlements are detailed under Key Management Compensation on page 64 and Remuneration of Employees information on page 72 of the 2020 Financial Statements.

CEO Remuneration

The review and approval of the CEO's remuneration is the responsibility of the Board.

The CEO's remuneration currently comprises a fixed base salary, a variable short term bonus payable annually and a Long Term Incentive, with a new LTI scheme currently being developed. Use of external advice was last sought on the CEO's remuneration package in 2017.

Short term bonuses are paid against targets agreed at the commencement of the year and are based on achievement of strategic objectives including financial performance against budget, specific achievement of major milestones in the strategic plan and enhancing organisation culture and capability including IT, health and safety, risk, people and culture.

CORPORATE GOVERNANCE

PRINCIPLE 5: REMUNERATION (Continued)

Payments made to CEO, Richard Keys, for the 12 months to 31 May 2020 were as follows. As noted below, some amounts paid in FY19 relate to prior periods.

Chief Executive Remuneration Payments:

	Fixed remuneration[1]	STI payment for prior period[2]	STI % achieved	Vesting of three year LTI[3]	Total remuneration
FY20	584,560	-	0%	-	584,560
FY19	742,868	126,000	81%	525,000	1,393,868
FY18	549,503	133,000	95%	-	682,503
FY17	544,758	122,106	87%	-	666,864

Notes:

1. Fixed remuneration paid includes holiday pay as per NZ legislation. The CEO's FY20 base salary was $596,304 (FY19: $590,400; FY18 $590,400). There was a temporary reduction in April and May 2020 of 20% of base salary in response to COVID-19.
2. STI payments:
   - FY20 relates to the period 1 June 2018 to 31 May 2019. Maximum STI payable was $155,800.
   - FY19 relates to the period 1 June 2017 to 31 May 2018. Maximum STI payable was $155,800
   - FY18 relates to the period 1 June 2016 to 31 May 2017. Maximum STI payable was $140,000.
   - FY17 relates to the period 1 June 2015 to 31 May 2016. Maximum STI payable was $140,000.
3. The LTI payment for FY19 relates to the 2015 executive share scheme which covered the period from FY16 to FY18. During FY19, the Board confirmed the performance criteria had been met over the duration of the scheme and shares vested to employee. Refer to note 8 of the 2019 Financial Statements for details of the 2015 executive share scheme.

Director Remuneration

Details of Directors' remuneration are detailed on page 71 of the 2020 Financial Statements.

The Board has a policy that Directors should hold shares in Abano to better align Directors interests with the Company's shareholders. The Board has agreed that non-executive Directors will acquire and own shares which are at least approximately equal in value to two years of their net Directors' fees. To enable this to occur, Directors can elect to participate in the Directors Share Plan which provides for 50% of their annual after tax fees to be applied to the acquisition of the Company's shares, which are made on-market by the Company's broker according to a predetermined, fixed timetable. The framework for the Share Plan is outlined in the Directors' Share Plan and Policy. Details of shares acquired under the share plan can be found in Directors' Share Dealings on page 70 of the 2020 Financial Statements. The Directors' Share Plan was suspended during FY20.

Any proposed increases in non-executive Director fees and remuneration are put to shareholders for approval. Independent advice is also sought by the Board and disclosed to shareholders as part of the approval process. Shareholders last approved Director remuneration at the 2018 Annual Meeting.

Board role	Approved remuneration
Chair	$143,000
Deputy Chair	$89,500
Director	$71,500
Additional fee for Chair of the Risk Assurance and Audit Committee	$17,900
Additional fee for Chair of the Governance and Remuneration Committee	$10,700
Special annual pool to provide flexibility for the remuneration of non-executive directors who take on additional duties	$150,000

CORPORATE GOVERNANCE

PRINCIPLE 6: RISK MANAGEMENT

The Board has overall responsibility for the Company's system of risk management and internal control and has procedures in place to provide effective control within the management and reporting structure. In addition, the Risk Assurance and Audit Committee (RAAC) provides an additional and more specialised oversight of Company risks. The RAAC Charter details the specific responsibilities of the Committee regarding Risk Assurance.

Financial statements are prepared monthly and are reviewed by the Board progressively throughout the year to monitor management's performance against budget goals and objectives, and the Board requires managers to identify and respond to risk exposures. In addition, formal risk assessment reviews are presented to the Board by the CEO.

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

Risk profiles which identify, assess, monitor and report the Company's key business risks are formally reviewed by the Board.

Crisis plans have been developed and are in place along with agreed protocols on actions to be taken and external and internal communication protocols.

Occupational Health and Safety statistics and reported data from each business are reviewed at each Board meeting. This includes serious and minor incidents along with near misses and corrective actions and internal training schemes.

The Board is responsible for monitoring corporate risk assessment processes and this is not delegated to a sub-committee.

Health, Safety and Wellbeing

The Abano Board recognises that effective management of health, safety and wellbeing is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for employees, contractors, customers and patients. The Health and Safety framework defines the Board's responsibilities and actions in regards to health and safety matters.

As a healthcare company, the health and safety of our patients is of particular relevance. Appropriate resources have been allocated to ensure all safety related legislative requirements are complied with and the best available health and safety management systems are established, maintained and regularly reviewed for continuous improvement. Key safety metrics have been identified and are monitored including blood and body fluid exposure, sterilisation breaches, injuries to staff and injuries to patients. To support employee's wellbeing, a free confidential counselling service is available to staff and contractors for work and non-work related concerns.

A summary of priority risks is shown below:

Priority risk	Controls and Mitigation
Operational Risk The risk of underperformance by practices, particularly same store growth and margin growth. The ability to attract and retain dentists and attract and retain new and existing patients. The risk that there is a slowdown in the growth of existing practices, difficulty with integration of acquired practices into the Group, departure of dentists post "earn-out" and/or reduction in EBITDA due to added incentives to retain "vendor dentist". The failure to deliver on the business plan.	• Performance management using real time dashboards and technology. • Management of spare capacity of clinicians and chairs in the networks. • Alignment of interests of Dentists and Abano. • Growth orientated incentive structures. • Diversified practice and clinical mix across geographies and dental specialities. • Initiatives around attraction, retention and succession planning of Dentists. • Active management of recruitment pipeline. • Implementing various business models such as Clusters and Joint Ventures.

CORPORATE GOVERNANCE

Priority risk	Controls and Mitigation
Supply Chain Management The risk that there is an interruption to the supply, or the unavailability of the supply, of key consumables and equipment.	• Supply chain measurement and monitoring. • Performance management of suppliers. • Frequent stock takes of all inventory. • Diversification of supply source and supplies for each key consumable. • Stock on hand or commitment for stock on consignment from suppliers to secure future usage of critical items. • Increased supplies of essential items for COVID-19 environment.
Clinical Risk The risk that the best clinical outcomes are not achieved and/or optimised for the patient. This includes the general satisfaction of the patient with their health outcomes.	• Monitoring, reporting and management of quality indicators. • Investigation of anomalies on real time dashboards by Clinical advisors. • Training and collaboration/sharing of knowledge within the Group. • Clinical Advisory Boards oversight.
Health, Safety and Wellbeing (H,S & W) The risk to our people and patients from an infection, accident, sterilisation breach, equipment failure, inappropriate behaviour that could cause physical or emotional harm.	• Monitoring and measurement of risk indicators on a Monthly, Quarterly and Annual basis, with a focus on continuous improvement. • H,S & W programme focused on identifying and mitigating health and safety risks within the business, overseen by dedicated personnel. • Practice training and processes including sterilisation audits, best practice protocols, as well as oversight by Clinical Advisors and Clinical Advisory Boards. • Focus on H,S &W supported by Abano policies, Code of Conduct and 'Speak Up' culture.
'Black Swan' risk The threat of an external 'black swan' event such as a flood, fire, earthquake, pandemic, electricity/water shortages that result in significant business disruption.	• Contingency plans in place including: o Pandemic Preparedness Plan. o Earthquake Preparedness Plan. o Business Continuity Plan. o Crisis Management Team protocols. o COVID-19 Practice Safety Plans. • Diversified locations. • Scale of the business.
Balance Sheet management The risk that there is insufficient capital and/or funding available to grow or support the business.	• Active monitoring of key indicators and appropriate actions taken, including monitoring: o Terms of debt. o Treasury policy adherence. o Bank covenants.

CORPORATE GOVERNANCE

PRINCIPLE 7: AUDITORS

Abano's External Auditor Policy outlines the Company's commitment to ensuring audit independence, both in fact and appearance, so that Abano's external financial reporting is viewed as being highly objective and without bias.

The Risk Assurance and Audit Committee (RAAC) reviews the quality and cost of the audit undertaken by the Company's external auditors and provides a formal channel of communication between the Board, senior management and external auditors. The RAAC also assesses the auditor's independence on an annual basis.

All audit work at Abano is fully separated from non-audit services, to ensure that appropriate independence is maintained.

For the financial year ended 31 May 2020, PricewaterhouseCoopers (PwC) was the external auditor for Abano Healthcare Group Limited. PwC was re-appointed under the Companies Act 1993 at the 2019 Annual Meeting. The last audit partner rotation was in FY20.

The amount of fees paid to PwC for audit and non-audit work are identified on page 41 of the 2020 Financial Statements.

Other services provided by PwC in FY20 were non-audit related and involved the provision of advice rather than recommendations. These were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work.

Abano has a number of internal controls, including controls for computerised information system, security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud.

PRINCIPLE 8: SHAREHOLDER RIGHTS AND RELATIONS

The Board is committed to open and regular dialogue and engagement with shareholders. Abano has a calendar of communications and events for shareholders, including but not limited to:

- Annual and Interim Reports
- Regular Shareholder Newsletters
- Market announcements
- Annual Meeting
- Institutional investors and retail broker roadshows
- Other ad hoc investor presentations
- Easy access to information through the Abano website www.abano.co.nz
- Open access to management via phone calls and email.

Shareholders are actively encouraged to attend the Annual Meeting and may raise matters for discussion at this event, and vote on major decisions which affect Abano. Voting is by poll, upholding the 'one share, one vote' philosophy. Abano seeks to make its Notice of Meeting available on its website at least 20 working days prior to the meeting.

Abano also provides additional opportunities for shareholders to meet with management at various shareholder events, including investor roadshows in New Zealand and Australia and presentations at shareholder organisations.

All shareholders are given the option to elect to receive electronic communications from the company.

In addition to shareholders, Abano has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

Abano has a number of policies which uphold stakeholder interests including but not limited to the Share Trading Policy, Market Disclosure Policy and Code of Conduct.

DIRECTORS

Dr Tracey Batten
Appointed 23 May 2018

Murray Boyte
Deputy Chair
Appointed 26 February 2015

Philippa (Pip) Dunphy
Chair
Appointed 25 September 2012

Dr Ginni Mansberg
Appointed 24 August 2016

Michael Schubert
Appointed 21 May 2020

RISK ASSURANCE AND AUDIT COMMITTEE

Michael Schubert (Chair)
Dr Tracey Batten
Pip Dunphy

GOVERNANCE AND REMUNERATION COMMITTEE

Dr Tracey Batten (Chair)
Murray Boyte
Pip Dunphy
Dr Ginni Mansberg

REGISTERED OFFICE AND ADDRESS FOR SERVICE

Level 11
AMP Centre
29 Customs Street West, Auckland

AUDITORS

PricewaterhouseCoopers
PwC Tower, Level 27
15 Customs Street West
Auckland 1010

BANKERS

ASB Bank Limited
12 Jellicoe Street, Auckland

Commonwealth Bank of Australia
240 Queen Street
Brisbane, Australia

SOLICITORS

Harmos Horton Lusk Limited
Vero Centre
48 Shortland Street, Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland

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