

healthzone limited

ACN 118 715 772

316 Horsley Road
Milperra NSW 2214

28 November 2008

Company Announcements Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney NSW 2000

Shareholder Update

In the year to 30 June 2008, Healthzone doubled earnings before interest, tax, depreciation and amortisation (EBITDA) from \$2.3 million to \$4.8 million. In the three months to 30 September 2009, Healthzone achieved EBITDA of approximately \$1.7 million.

Although the health food sector has historically been resilient to changes in economic cycles, Healthzone's directors are cautious about the potential impact of worsening economic conditions on Healthzone's businesses in FY09, including:

- Changes in consumer spending, numbers of visitors to shopping centres and average purchases per customer in franchised and company owned stores;
- The potential impact of reduced consumer spending on sales of products that are distributed to retailers by Health Minders and the Jasham business and the sales of the company's proprietary brands to consumers;
- Potential changes in consumer preferences;
- Increasing competition in Healthzone's overseas markets and potential slowing of consumer demand for the company's products in those markets; and
- Deferral of Australian and international, expansion initiatives subject to greater certainty in market conditions.

The company is well advanced with the integration of the Health Minders and Jasham businesses however September quarter growth was impacted by shortages by suppliers to the Health Minders distribution business, integration of the Jasham business and the non-continuance of some Health Minders suppliers from the previous corresponding period.

Key growth and integration initiatives in progress for FY09 include:

- Securing distribution agreements with new suppliers since the Health Minders business was acquired in October 2007;
- Improving services to distribution and franchise businesses, including customer services, merchandising, marketing and training and developing value-added services to be provided to distribution business customers with a view elevating distribution business margins and sustainable competitive advantages;

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- Cross selling Healthzone's proprietary products in company owned and franchised stores;
- Expanding distribution of the company's skincare and hair care products in overseas markets, including through the Sephora group in Europe and large retail chains in Australia;
- Aligning the interests of the Company's franchisees with objectives and achieving a 10% to 30% uplift in the purchases by franchisees of products from the Health Minders distribution business;
- Developing initiatives to expand gross profit margins from early 2009 through syndicated buying and forward commitments to stock purchases;
- Expanding Healthzone's offering to the predominantly pharmacy market of Jasham;
- Enhancing Healthzone's management team in the areas of finance, sales, distribution and marketing; and
- Upgrading information systems to enhance operating efficiency and market intelligence.

Net interest expense for the year to 30 June 2009 is expected to be in the vicinity of \$2 million due to the acquisition of businesses in the year to 30 June 2008 and investment of working capital in those businesses.

For further information please contact:
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Background Notes for Editors: Healthzone Limited

The Company operates a portfolio of distribution, consumer product and retail businesses in the Wellness sector. Each business provides immediate opportunities for earnings growth through business development and integration. The business unit activities are made up of three divisions.

Health and Beauty Distribution

- Health Minders national distribution, with warehouse facilities in most states of Australia.
- Jasham distribution of beauty and fragrance products to more than 1,700 pharmacies and department stores in Australia.
- Healthzone distribution through more than 1,400 outlets in China.
- North America, Europe and Asia distribution.

Health and Beauty Products

- More than 300 Healthy Life products
- The 'Bod' products are natural beauty products made in Australia. These products are sold in Japan, Hong Kong, Taiwan, Korea, Canada, Europe and New Zealand. These products will be the target of further development of the significant export market potential. The Bod products range is also actively marketed through Healthzone stores in Australia.
- The company produces a range of more than 45 supplement and vitamin products under its Aurinda brand, which are manufactured in Australia for export sale.
- The Company plans to acquire or develop its portfolio of Wellness products and is exploring opportunities to expand distribution of these products in Australian and overseas Wellness markets.

Health Retail

- The Company has 130 franchised stores and eight company owned stores
- Healthzone sells more than 800 wellness products online at www.healthonline.com.au, including products from other leading vendors. Other online stores include Bod Online and Bod-e-Zone.
- One of the major aspects of this operation is that it has more than 400,000 registered members and loyal customers.