
HEALTH CORPORATION LIMITED

ACN 116 800 269

NOTICE OF ANNUAL GENERAL MEETING

TIME: 11:00am (WST)

DATE: Tuesday, 30 November 2010

PLACE: Level 21, Allendale Square
77 St Georges Terrace
Perth WA 6000

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

NOTE: Hall Chadwick Corporate has prepared the Independent Expert's Report and has provided an opinion that it believes the proposal as outlined in Resolution 5 is fair and reasonable to the Shareholders of the Company not associated with Mr Ken Lee. It is recommended that all Shareholders read the Independent Expert's Report in full.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 9389 2000.

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TIME AND PLACE OF ANNUAL GENERAL MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 11:00am (WST) on Tuesday, 30 November 2010 at:

Level 21, Allendale Square
77 St Georges Terrace
Perth WA 6000

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the Annual General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post to Health Corporation Limited, PO Box Z5446, St Georges Terrace, Perth, Western Australia 6831; or
- (b) facsimile to the Company on facsimile number +61 8 9389 2099; or
- (c) return the proxy form by delivery to the Company’s office at Level 21, Allendale Square, 77 St Georges Terrace, Perth, Western Australia,

so that it is received not later than 5:00pm (WST) on Friday, 26 November 2010.

Proxy Forms received later than this time will be invalid.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the annual general meeting of Shareholders will be held at 11:00am (WST) on Tuesday, 30 November 2010 at Level 21, Allendale Square, 77 St Georges Terrace, Perth, Western Australia.

The Explanatory Statement provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders at 7:00pm (Sydney time) on Monday, 29 November 2010.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2010 together with the declaration of the Directors, the Directors' report, the remuneration report and the Auditor's report.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

“That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the remuneration report as contained in the Company's annual financial report for the financial year ended 30 June 2010.”

2. RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR JASON DAVIS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 14.11 of the Constitution and for all other purposes, Mr Jason Davis, a Director who was appointed on 14 May 2010, retires, and being eligible, is re-elected as a Director.”

3. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR TONY INCE

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 14.11 of the Constitution and for all other purposes, Mr Tony Ince, a Director who was appointed on 14 May 2010, retires, and being eligible, is re-elected as a Director.”

4. **RESOLUTION 4 – RE-ELECTION OF DIRECTOR – MR MATTHEW ABRAHAMS**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 14.7 of the Constitution and for all other purposes, Mr Matthew Abrahams, a Director, retires by rotation, and being eligible, is re-elected as a Director.”

5. **RESOLUTION 5 – DISPOSAL OF ASSETS TO A RELATED PARTY**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purpose of ASX Listing Rule 10.1 and for all other purposes, approval is given for the disposal of:

(a) the Company’s investments in:

(i) Health Information Pharmacy Franchising Pty Ltd;

(ii) Chemconsult Australia Pty Ltd;

(iii) HIP IP Pty Ltd; and

(iv) Leverage Finance Pty Ltd; and

(b) the Company’s units in the Pharmacy Asset Trust,

to Mr Ken Lee (or nominee), a related party of the Company, on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a party to the transaction and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Expert’s Report: Shareholders should carefully consider the Independent Expert’s Report prepared by Hall Chadwick Corporate for the purposes of Shareholder approval required under ASX Listing Rule 10.1. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company.

6. **RESOLUTION 6 – RATIFICATION OF PRIOR ISSUE – SHARES**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 7,010,000 Shares on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 7 – RATIFICATION OF PRIOR ISSUE – OPTIONS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 1,657,688 Options on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

8. RESOLUTION 8 – PLACEMENT – SHARES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue up to 6 million Shares on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

DATED: 29 OCTOBER 2010

BY ORDER OF THE BOARD



JASON DAVIS
DIRECTOR

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at 11:00am (WST) on Tuesday, 30 November 2010 at Level 21, Allendale Square, 77 St Georges Terrace, Perth, Western Australia.

This purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2010 together with the declaration of the Directors, the Directors' report, the remuneration report and the Auditor's report.

The Company will not provide a hard copy of the Company's annual financial report to Shareholders unless specifically requested to do so. The Company's annual financial report is available on the ASX website at www.asx.com.au.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The remuneration report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 30 June 2010.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.

3. RESOLUTIONS 2 AND 3 – RE-ELECTION OF DIRECTORS – MR JASON DAVIS AND MR TONY INCE

Clause 14.11 of the Constitution allows the Directors to appoint at any time a person to be a Director as an addition to the existing Directors, but only where the total number of Directors does not at any time exceed the maximum number specified by the Constitution.

Any Director so appointed holds office only until the next following annual general meeting and is then eligible for re-election.

Messrs Jason Davis and Tony Ince will retire in accordance with clause 14.11 of the Constitution and being eligible seek re-election.

4. RESOLUTION 4 – RE-ELECTION OF DIRECTOR – MR MATTHEW ABRAHAMS

Clause 14.7 of the Constitution requires that at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third (rounded upwards

in case of doubt), shall retire from office, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots.

A Director who retires by rotation under clause 14.7 of the Constitution is eligible for re-election.

The Company currently has 4 Directors (including Messrs Jason Davis and Tony Ince, who submit themselves for re-election in accordance with clause 14.11 of the Constitution) and accordingly 1 must retire.

Mr Matthew Abrahams, the Director longest in office since his last election, retires by rotation and seeks re-election.

5. RESOLUTION 5 – DISPOSAL OF ASSETS TO A RELATED PARTY

5.1 Background

On 3 May 2010, the Company announced a strategic decision to review the Company's existing operations, with a focus on:

- (a) implementing cost cutting measures;
- (b) reviewing non-core or loss making business; and
- (c) seeking potential complimentary investment opportunities, including medical and biotechnology/science ventures.

As part of the Company's stated objectives described above, and, as announced to the market on 25 October 2010, the Company has entered into a conditional agreement with Director Mr Ken Lee, for the sale to Mr Lee (or his nominee) (**Purchaser**) of the assets further described in Section 5.2 below (**Transaction**).

Upon completion of the Transaction, the Company's core remaining assets will comprise:

- (d) Intramedics (subject to Shareholder approval of Resolution 8); and
- (e) HIP MBA Pty Ltd, which provides accounting services to pharmacy businesses; and
- (f) HEA Management Pty Ltd, being a company incorporated with the intention of providing management services to pharmacy businesses.

It is anticipated that disposal of the Assets in conjunction with the acquisition of Intramedics (as described in Section 8.1 below) will provide greater opportunities for both organic and acquisitive expansion by retiring debt and removing loss-making investments, thereby improving the Company's foundation for growth of future earnings.

The purpose of Resolution 5 is to seek Shareholder approval of the Transaction.

5.2 Material Transaction Terms

Under the Transaction, the Company agrees, subject to Shareholder approval, to sell:

- (a) the Company's investments in:
 - (i) Health Information Pharmacy Franchising Pty Ltd (100%) valued at \$-929,237;
 - (ii) Chemconsult Australia Pty Ltd (100%) valued at \$7,248;
 - (iii) HIP IP Pty Ltd (100%) valued at \$-17,878; and
 - (iv) Leverage Finance Pty Ltd (100%) valued at \$6,877; and
- (b) the Company's units in the Pharmacy Asset Trust (50%) valued at \$3,614,980,

(collectively the **Assets**) in consideration for:

- (c) the forgiveness of debt totalling \$2,443,689 owed by the Company to the K&J Lee Partnership;
- (d) the forgiveness of debt totalling \$579,642 owed by the Company to HIP QLD Pty Ltd;
- (e) the forgiveness of debt totalling \$230,000 owed by the Company to the K&J Lee Superannuation Fund;
- (f) the assumption by the Purchaser of the Company's debt totalling \$579,642 owed to Health for Tomorrow Pty Ltd; and
- (g) the assumption by the Purchaser of the Company's debt totalling \$193,214 owed to Lawsfield Holdings Pty Limited,

being a total consideration of \$4,026,187. Completion of the Transaction will occur within 5 business days of the Annual General Meeting (subject to Shareholder approval).

Further details in respect of the Transaction (including the impact of the Transaction on the Company's financial position and non-associated Shareholders) are set out in the Independent Expert's Report. The Directors recommend you read the Independent Expert's Report in full.

5.3 ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that an entity must ensure that neither it, nor any of its child entities, acquires a "substantial asset" from, or disposes of a substantial asset to, amongst other persons, a related party of the entity without the approval of holders of the entity's ordinary shares.

ASX Listing Rule 10.2 provides that an asset is "substantial" if its value, or the value of the consideration for it, is 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.

The value of the equity interests of the Company as set out in its report for the year ended 30 June 2010 is approximately \$-3,138,329. Accordingly, the Assets are

considered to be substantial as the proposed consideration for the sale of the Assets (being \$4,026,187) exceeds 5% of the equity interests of the Company.

ASX Listing Rule 10.1 Requirements

As the Transaction constitutes the sale of substantial assets of the Company to a related party of the Company (being Mr Ken Lee or his nominee), Shareholder approval is required pursuant to ASX Listing Rule 10.1.

ASX Listing Rule 10.10 provides that Shareholder approval sought for the purpose of ASX Listing Rule 10.1 must include a report on the transaction from an independent expert which must state whether the transaction is fair and reasonable to holders of the entity's ordinary shares whose votes are not disregarded by operation of the voting exclusion statement.

Accompanying this Explanatory Statement is an Independent Expert's Report prepared by Hall Chadwick Corporate concluding that the proposed Transaction is **fair and reasonable** to the non-associated Shareholders.

5.4 Chapter 2E of the Corporations Act

Under Chapter 2E of the Corporations Act, a public company cannot give a "financial benefit" to a "related party" unless one of the exceptions to the section apply or Shareholders have in a general meeting approved the giving of that financial benefit to the related party.

Whilst Mr Lee is a "related party" of the Company as defined under the Corporations Act (because he is a Director of the Company), and the sale of the Assets to Mr Lee constitutes the "giving a financial benefit", the Directors are of the view that the exception under section 210 of the Corporations Act applies in the current circumstances as the terms of the Transaction are considered arm's length. Accordingly, the Company is not seeking Shareholder approval for the purposes of section 208 of the Corporations Act.

6. RESOLUTION 6 – RATIFICATION OF PRIOR ISSUE – SHARES

6.1 General

Between May and June 2010, the Company issued 7,010,000 Shares as follows:

- (a) 6,940,000 to Verona Capital Pty Ltd (**Verona**) pursuant to a placement agreement between the Company and Verona as announced on 3 May 2010; and
- (b) 70,000 to W L Khoo Pty Ltd (being a new franchisee) as an incentive bonus.

The subscribers pursuant to the issues were not related parties of the Company.

Resolution 6 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Share Ratification**).

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made

pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

6.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Share Ratification:

- (a) a total of 7,010,000 Shares were allotted;
- (b) the issue prices were as follows:
 - (i) 6,940,000 Shares at \$0.075 per Share; and
 - (ii) 70,000 Shares at a deemed issue price of \$0.075 per Share;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were allotted and issued to:
 - (i) Craig and Katrina Burton;
 - (ii) Brett and Michelle Mitchell; and
 - (iii) W L Khoo Pty Ltd.
- (e) the funds raised from this issue were used for working capital.

7. RESOLUTION 7 – RATIFICATION OF PRIOR ISSUE – OPTIONS

7.1 General

On 3 June 2010, the Company issued 1,657,688 Options as an incentive bonus for new franchisees.

The subscribers pursuant to this issue were not related parties of the Company.

Resolution 7 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Options (**Option Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 is set out in Section 6.1 above.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

7.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Option Ratification:

- (a) 1,657,688 Options were allotted;

- (b) the Options were issued for nil cash consideration;
- (c) the Options were issued on the terms and conditions set out in Schedule 1;
- (d) the Options were allotted and issued to the following new franchisees:
 - (i) Liong Ang <Liong Ang Family A/C>;
 - (ii) Mr Gary Cheung;
 - (iii) Mr Graham Clive Dunkley;
 - (iv) Mr Allen Ching-Lun Huang <The Huang Investment A/C>;
 - (v) Mr Ronald Wee-Zheng Khoo;
 - (vi) K & J Lee Enterprises Pty Ltd <Lee Investments A/C>;
 - (vii) Mr Albert Seng Lee & Mrs Helen Ban Lee;
 - (viii) Meng-min Ming Lin & Hsiu-mei Liu;
 - (ix) MediConsul Pty Ltd <Nguyen Family A/C>;
 - (x) Reinhard Business Services Pty Ltd;
 - (xi) Mr Allan To;
 - (xii) W L Khoo Pty Ltd <William Khoo A/C>;
 - (xiii) Mr Terry Wong; and
 - (xiv) Mr Voon Ken Wong; and
- (e) no funds were raised from this issue as the Options were issued as an incentive bonus for new franchisees.

8. RESOLUTION 8 – PLACEMENT – SHARES

8.1 General

In August 2010, the Company announced that it had entered into a conditional agreement to acquire, subject to Shareholder approval, all of the issued capital of Intramedics Pty Ltd (**Intramedics**), an Australian company developing Hyper-HA, a bioscience project involved in the development of a biologically stable form of Hyaluronic Acid. The acquisition of Intramedics is consistent with the Company's stated objectives as described in further detail in Section 5.1 above.

Resolution 8 seeks Shareholder approval for the allotment and issue of up to 6 million Shares at a deemed issue price of \$0.075 per Share in consideration for the acquisition of Intramedics (**Share Placement**).

None of the subscribers pursuant to this issue will be related parties of the Company.

A summary of ASX Listing Rule 7.1 is set out in Section 6.1 above.

The effect of Resolution 8 will be to allow the Directors to issue the Shares pursuant to the Share Placement during the period of 3 months after the Meeting (or a

longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

8.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Share Placement:

- (a) the maximum number of Shares to be issued is 6 million;
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the deemed issue price will be \$0.075 per Share;
- (d) the Shares will be allotted and issued to the vendors of Intramedics;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) no funds raised from the Share Placement as they are being issued in consideration for the acquisition of all of the issued share capital of Intramedics.

9. ENQUIRIES

Shareholders are requested to contact the Company Secretary on +61 8 9389 2000 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

Annual General Meeting or **Meeting** means the meeting convened by the Notice.

ASIC means the Australian Securities and Investments Commission.

Assets means the assets described in Section 5.2 of the Explanatory Statement, being the assets the subject of the Transaction.

ASX means ASX Limited ACN 008 624 691 or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Company means Health Corporation Limited ACN 116 800 269.

Constitution means the Company's Constitution.

Corporations Act means the *Corporations Act* 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

Hall Chadwick Corporate means Hall Chadwick Corporate (NSW) Limited (ACN 080 462 488).

Independent Expert's Report means the Independent Expert's Report in relation to the Transaction prepared by Hall Chadwick Corporate and annexed to this Notice as Annexure A.

Notice or **Notice of Meeting** or **Notice of Annual General Meeting** means this Notice of Annual General Meeting including the Explanatory Statement and the Proxy Form.

Option means an option to acquire a Share with the terms and conditions set out in Schedule 1.

Optionholder means a holder of an Option or Director Option as the context requires.

Proxy Form means the proxy form accompanying the Notice.

Resolutions means the resolutions set out in the Notice of Annual General Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

Transaction means the transaction described in Section 5.1 of the Explanatory Statement, being the transaction the subject of Resolution 5.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF OPTIONS

The Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Option gives the Optionholder the right to subscribe for one Share.
- (b) The Options will expire at 5:00pm (WST) on 1 December 2011 (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The amount payable upon exercise of each Option will be \$1.20 (**Exercise Price**).
- (d) The Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (e) An Optionholder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised,

(Exercise Notice).
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
- (h) The Options are not transferable.
- (i) All Shares allotted upon the exercise of Options will upon allotment rank *pari passu* in all respects with other Shares.
- (j) The Company will not apply for quotation of the Options on ASX. However, The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (k) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (l) There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (m) An Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Option can be exercised.

PROXY FORM

**APPOINTMENT OF PROXY
HEALTH CORPORATION LIMITED
ACN 116 800 269**

ANNUAL GENERAL MEETING

I/We

of

being a member of Health Corporation Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy

OR the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the Annual General Meeting to be held at 11:00am (WST), on Tuesday, 30 November 2010 at Level 21, Allendale Square, 77 St Georges Terrace, Perth, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

If the Chair of the Annual General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolutions 5 to 8** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the Annual General Meeting may exercise your proxy even if they have an interest in the outcome of Resolutions 5 to 8 and that votes cast by the Chair of the Annual General Meeting for Resolutions 5 to 8 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 5 to 8 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 5 to 8.

OR

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Re-election of Director – Mr Jason Davis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Re-election of Director – Mr Tony Ince	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Re-election of Director – Mr Matthew Abrahams	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Disposal of Assets to a Related Party	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6A – Ratification of Prior Issue – Shares (Verona Capital Pty Ltd)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6B – Ratification of Prior Issue – Shares (W L Khoo Pty Ltd)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 – Ratification of Prior Issue – Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 – Placement - Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____ %

Signature of Member(s): _____ **Date:** _____

Individual or Member 1

Member 2

Member 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

HEALTH CORPORATION LIMITED
ACN 116 800 269

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to Health Corporation Limited, PO Box Z5446, St Georges Terrace, Perth, Western Australia 6831; or
 - (b) facsimile to the Company on facsimile number +61 8 9389 2099; or
 - (c) return the proxy form by delivery to the Company's office at Level 21, Allendale Square, 77 St Georges Terrace, Perth, Western Australia,

so that it is received not later than 5:00pm (WST) on Friday, 26 November 2010.

Proxy forms received later than this time will be invalid.

ANNEXURE A – INDEPENDENT EXPERT'S REPORT

26 October 2010

The Directors
Health Corporation Limited
Level 21, Allendale Square
77 St Georges Terrace
PERTH WA 6000

Dear Sirs,

Independent Expert's Report on the proposed disposal of assets to a related party

1. INTRODUCTION

Background

- 1.1 Health Corporation Limited ("**HEALCO**" or "**the Company**") has entered into an agreement for the disposal of its investments in its subsidiaries Health Information Pharmacy Franchising Pty Ltd, Chemconsult Australia Pty Ltd, HIP IP Pty Ltd, Leverage Finance Pty Ltd and its units in the Asset Trust 1 Unit Trust in consideration for the offsetting of Debt owed by the Company to K&J Lee Partnership, HIP QLD Pty Ltd, K&J Lee Superannuation Fund, and the assumption of debts of the company to Health for Tomorrow Pty Ltd and Lawsfield Holdings Pty Ltd.
- 1.2 The proposed sale of HEALCO assets is herein referred to as the "**Transaction**".
- 1.3 As the Transaction involves the disposal of assets to Mr Ken Lee or his nominees (related parties of HEALCO), the Company is seeking approval for the Transaction pursuant to ASX Listing Rule 10.1 and for all other purposes for the disposal of assets to a related party.

Purpose of Report

- 1.4 You have requested Hall Chadwick Corporate (NSW) Limited ("**HCC**") prepare an Independent Expert's Report to advise the shareholders of HEALCO, other than those associated with the proposed sale of HEALCO assets ("**Non-Associated Shareholders**"), whether the proposed Transaction is fair and reasonable when considered in the context of the interests of Non-Associated Shareholders and to set out the reasons for our conclusions.
- 1.5 HCC understands and has agreed that this report will accompany the notice to convene a meeting of HEALCO

Hall Chadwick Corporate
(NSW) Limited

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or
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Email: hcsydinfo@hallchadwick.com.au

shareholders, to assist the Non-Associated Shareholders in their consideration of the Transaction to be put at a General Meeting.

2. OPINION

2.1 In our opinion, the proposed Transaction is **fair and reasonable** to the Non-Associated Shareholders of HEALCO.

2.2 The ultimate decision, however, on whether to accept the proposed Transaction should be based on HEALCO shareholders own assessment of their circumstances.

STRUCTURE OF REPORT

Our report is set out under the following headings:

- 3 PURPOSE OF REPORT
- 4 OPINION
- 5 BASIS OF EVALUATION
- 6 TRANSACTION SUMMARY
- 7 OVERVIEW OF HEALCO AND HEALCO ASSETS
- 8 VALUATION METHODOLOGIES
- 9 VALUE OF HEALCO ASSETS AND CONSIDERATION RECEIVED
- 10 ADVANTAGES AND DISADVANTAGES OF THE TRANSACTION
- 11 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

APPENDICES

- I SOURCES OF INFORMATION
- II STATEMENT OF DECLARATION & QUALIFICATIONS
- III FINANCIAL SERVICES GUIDE

3 PURPOSE OF REPORT

- 3.1 The purpose of this report is to provide an opinion on the fair market value of the HEALCO assets and whether or not the terms and conditions in relation to the Transaction are fair and reasonable to the HEALCO shareholders whose votes are not to be disregarded in respect of the Transaction (that is, the Non-Associated Shareholders). The ultimate decision whether to accept the terms of the Transaction should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Transaction or matters dealt with in this report, shareholders should seek independent professional advice.
- 3.2 In this report, the "Transaction" refers to the proposed sale of HEALCO assets to Mr Ken Lee or his nominees. As Mr Ken Lee is a related party of HEALCO, the Company is seeking approval for the Transaction pursuant to ASX Listing Rule 10.1.
- 3.3 This report has been prepared at the request of HEALCO Directors to satisfy the requirements of the Australian Securities Exchange ("**ASX**") Listing Rules.

ASX Listing Rules

- 3.4 ASX Listing Rule 10.1 requires that a listed company must obtain shareholder approval before it acquires or disposes of a substantial asset. This applies where the acquiror of the relevant assets is a related party of the listed company.
- 3.5 Section 228(5) of the Corporations Act states that a person may be a related party for the purposes of the legislation if they were a related party as defined in Section 228(2) within the previous 6 months, or there are reasonable grounds to believe that they will become a related party of the public company at any time in the future.
- 3.6 In determining the related parties of HEALCO for the purpose of this Transaction we note the following:
- a) Mr Ken Lee is a director and shareholder of HEALCO.
- 3.7 The application of the related party definition would include:
- a) The Directors of HEALCO;
 - b) HEALCO and its controlled entities;
 - c) Any existing shareholder of HEALCO who is to participate in the Transaction; and
 - d) Any controlled entity or associate of the above.
- 3.8** ASX Listing Rule 10.2 defines a substantial asset as an asset for which the consideration is 5% or more of the equity interests of the entity as set out in the latest accounts. The consideration to be paid by Mr. Ken Lee is more than 5% of the equity interest of HEALCO as set out in the June 2010 Financial Statements.
- 3.9 Directors have requested that an independent expert report be supplied to members as part of the material to accompany the Notice of Meeting seeking

approval of the Transaction, in order to satisfy the requirements of ASX Listing Rule 10.10.2.

- 3.10 Australian Securities and Investments Commission (“**ASIC**”) Regulatory Guide 111 “Content of Experts Reports” deals with providing shareholders with an opinion as to whether a proposed transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders, in the form of an independent expert’s report. This report provides such an opinion, in order to assist Non-Associated Shareholders in their decision as to whether or not it is in the company’s interests to approve the proposed Transaction.
- 3.11 For the Transaction to be fair, the value of the consideration being paid by Mr Ken Lee (or his nominees) must be equal to or greater than the value of the HEALCO assets being acquired by Mr Ken Lee (or his nominees). To be reasonable the shareholders must obtain an overall benefit if the Transaction proceeds. In forming an opinion as to whether the Transaction is fair and reasonable, the following factors have been considered:
- the underlying value of the HEALCO assets to be acquired by Mr Ken Lee (or his nominees);
 - consideration to be paid by Mr Ken Lee;
 - the likely market price and liquidity of HEALCO shares in the event the Transaction is not implemented and in the event that it is approved;
 - the likelihood of an emergence of an alternative proposal that may realise better value for HEALCO Shareholders.

4. OPINION

4.1 In our opinion, the proposed Transaction is **fair and reasonable** to the Non-Associated Shareholders of HEALCO.

4.2 Our opinion is based solely on information available as at the date of this report.

4.3 The principal factors that we have considered in forming our opinion are summarised below.

Fair

4.4 For the Transaction to be fair, the value of the consideration being paid by Mr Ken Lee (or his nominees) must be equal to or greater than the value of the HEALCO assets being acquired by Mr Ken Lee (or his nominees).

4.4.1 Based on the analysis contained in this report, the fair market value of the collective subsidiaries of Health Corporation Ltd (with the exception of HEA Management Pty Ltd and HIP MBA Pty Ltd) being sold to Mr Ken Lee (or his nominees) are as follows:

Assets Disposed	Value
Health Information Pharmacy Franchising Pty Ltd	(929,237)
Chemconsult Australia Pty Ltd	7,248
HIP IP Pty Ltd	(17,878)
Leverage Finance Pty Ltd	6,877
Asset Trust 1 Unit Trust	3,614,980
TOTAL COLLECTIVE VALUE	\$2,681,990

4.4.2 Based on the analysis contained in this report, the consideration being paid by Mr Ken Lee (or his nominees) for the HEALCO assets is as follows:

Consideration	Value
K&J Lee Partnership(1)	2,443,689
HIP QLD Pty Ltd(1)	579,642
K&J Lee Superannuation Fund(1)	230,000
Health For Tomorrow Pty Ltd(1)	579,642
Lawsfield Holdings Pty Ltd(1)	193,214
TOTAL VALUE	\$4,026,187

Note 1: These loans represent the debt being offset in consideration for the acquisition of the subsidiaries in 4.4.1.

4.4.3 Therefore, based on a comparison of the value attributed to HEALCO assets and the consideration being paid by Mr Ken Lee (or his nominees), in our opinion the Transaction is fair.

Reasonable

4.5 ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The transaction is fair; or

- Despite not being fair the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

4.5.1 We have concluded that the Transaction is fair and therefore by definition reasonable.

4.5.2 In forming our opinion we have considered the following additional relevant factors:

- The Net Asset position as detailed the Balance Sheet of HEALCO will be improved.
- The Company will have disposed of its loss making businesses.
- The Company will be able to pursue its current strategy of investing in opportunities in the medical/biotechnology sector.
- The debt of the Company will decrease and may not be in breach of covenants after the Transaction.
- The Company will not obtain any benefit from any economic gains, such as an increase in value that may arise in the future in relation to the HEALCO assets disposed of.

4.6 *Accordingly, in our opinion, the Transaction is fair and reasonable to the Non-Associated Shareholders of HEALCO.*

5 BASIS OF EVALUATION

- 5.1 In our assessment of whether the Transaction is fair and reasonable to HEALCO Non-Associated Shareholders, we have given due consideration to the Regulatory Guides issued by the ASIC, in particular, Regulatory Guide 74 "Acquisitions Agreed to by Shareholders", Regulatory Guide 111 "Content of Experts Reports" and Regulatory Guide 112 "Independence of Experts Reports".
- 5.2 ASIC Regulatory Guide 74 requires, amongst other things, that shareholders are provided with sufficient information to make an effective, informed decision on whether the proposed Transaction is fair and reasonable. Under Regulatory Guide 111, a transaction is "fair" if the value of the asset being sold is equal to or less than the value of consideration being received. Additionally, under Regulatory Guide 111 an offer is "reasonable" if it is fair. It is possible for an offer to be reasonable despite being unfair, if after considering other non-financial factors the shareholders should still accept the offer.
- 5.3 Our report has compared the likely advantages and disadvantages to non-associated shareholders if the Transaction is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the consideration to be paid for the Transaction and the value of the assets being sold is only one element of this assessment.
- 5.4 Normal valuation practice is to determine the fair market value of an asset assuming a counter party transaction between a willing and not anxious buyer and a willing but not anxious seller, clearly at arm's length. We have adopted this approach in determining the market value of HEALCO assets.
- 5.5 In evaluating the Transaction, we have considered the value of the HEALCO assets being acquired by Mr Ken Lee (or his nominees) and compared this to the amount of consideration to be paid by Mr Ken Lee (or his nominees). We consider that the Transaction will be reasonable if, on balance, the Non-Associated Shareholders in HEALCO will be better off if the Transaction is approved. We will also consider the Non-Associated Shareholder's interests should the Transaction not proceed.
- 5.6 In our assessment of the Transaction we have considered, in particular the following:
- The operational and financial position of HEALCO;
 - The advantages and disadvantages associated with approving the Transaction;
 - The likely value and liquidity of HEALCO shares in the absence of the Transaction.
- 5.7 The documents and information relied on for the purpose of this valuation is set out in Appendix I. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable. However, in assignments such as this, time is limited and we do not

warrant that our enquiries have identified or verified all of the matters which an audit or extensive examination might disclose. None of these additional tasks have been undertaken.

- 5.8 We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.9 An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 5.10 We in no way guarantee the achievability of any forecasts of future profits. Forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts.
- 5.11 HCC are not the auditors of HEALCO. We have analysed and reviewed information provided by directors and management of HEALCO and made further inquiries where appropriate.
- 5.12 An associated entity of HCC, Hall Chadwick Sydney partnership is the auditor of HEALCO. This report has been prepared by the Corporate Division of HCC.
- 5.13 This report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this report which may impact upon this report or which may impact upon the assumptions referred to in the report.

6 TRANSACTION SUMMARY

6.1 Background

6.1.1 HEALCO is an Australian listed public company with interests in pharmacy franchising, pharmacy support services and medical/biotechnology ventures.

6.1.2 As at 30 June 2010 the HEALCO Group of entities includes:

- Health Corporation Limited
- Health Information Pharmacy Franchising Pty Ltd
- Leverage Finance Pty Ltd
- HIP IP Pty Ltd
- HEA Management Pty Ltd
- HIP MBA Pty Ltd
- Chemconsult Australia Pty Ltd
- Asset Trust 1 Unit Trust

6.1.3 The Company owes \$3,253,331 to Mr Ken Lee (or his associated entities) and an additional \$772,856 to other entities.

6.1.4 The Company has, subject to shareholder approvals, negotiated certain arrangements with Mr Ken Lee (or his nominees) for Mr Lee to acquire the subsidiaries of Health Corporation Ltd (with the exception of HEA Management Pty Ltd and HIP MBA Pty Ltd) and reduce the debt of HEALCO.

6.1.5 The Directors advise they have not received any interest in the purchase of the assets being sold from any third parties.

6.1.6 Further information on HEALCO and each of the assets subject to the Transaction can be found at Section 7 of this report.

6.2 The Transaction and Proposed Realisation Strategy

6.2.1 The assets of the Company, their current carrying value in the Company's accounts and the proposed sale price are shown in the following table:

HEALCO Asset	Proposed Sale Price
Health Information Pharmacy Franchising Pty Ltd	(929,237)
Chemconsult Australia Pty Ltd	7,248
HIP IP Pty Ltd	(17,878)
Leverage Finance Pty Ltd	6,877
Asset Trust 1 Unit Trust	3,614,980
Total Collective Asset Value	\$2,681,990

6.2.2 The liabilities to be assumed by Mr Ken Lee (or his nominees) as consideration for the above assets are shown in the following table:

HEALCO Liability	Proposed Consideration
K&J Lee Partnership	2,443,689
HIP QLD Pty Ltd	579,642
K&J Lee Superannuation Fund	230,000
Health For Tomorrow Pty Ltd	579,642
Lawsfield Holdings Pty Ltd	193,214
Total Liabilities Value	\$4,026,187

6.2.3 Set out below is the Audited Balance Sheet of HEALCO as at 30 June 2010 along with a Proforma Balance Sheet for HEALCO if the Transaction is approved:

HEALTH CORPORATION LIMITED		
BALANCE SHEET		
	AS AT 30 JUNE 2010	POST TRANSACTION
<u>CURRENT ASSETS</u>		
Cash	59,470	9,186
Accounts Receivable	69,170	5,625
Other Current Assets	86,123	42,620
	214,763	57,431
<u>NON CURRENT ASSETS</u>		
Trade & Other Receivables	4,002	-
Financial Assets(1)	13,912,935	-
	13,916,937	-
TOTAL ASSETS	14,131,700	57,431
<u>CURRENT LIABILITIES</u>		
Trade & Other Payables	2,275,378	996,593
Borrowings	9,775,677	-
Short-term Financial Liabilities(2)	4,117,065	-
Short-term Provisions	32,062	-
	16,200,182	996,593
<u>NON CURRENT LIABILITIES</u>		
Long Term Financial Liabilities(3)	1,069,847	750,000
	1,069,847	750,000
TOTAL LIABILITIES	17,270,059	1,746,593
NET ASSETS(4)	(3,138,359)	(1,689,162)

Note (1) Financial Assets include loans to pharmacies. As part of the Transaction, these loans will be taken over by Mr Ken Lee or his nominees. These loans are included in the Net assets of Asset Trust 1 Unit Trust.

Note (2) Short Term financial liabilities included loans to be assumed by Mr Ken Lee (or his nominees) as part of the Transaction.

Note (3) Long Term Financial Liabilities not included in the Transaction include a loan from Brimbank Pty Ltd (\$700,000) and K&J Lee Superannuation Fund (\$50,000). The remainder of Financial Liabilities (both short and long term) will be taken over by Mr Ken Lee as part of the Transaction.

Note (4) The following table illustrates the relationship between the net assets of HEALCO before and after the Transaction along with the Assets disposed of and the Consideration received:

Net Assets prior to Transaction		<u>(3,138,359)</u>
Less: Net Asset of businesses subject to the Transaction		
Net Assets Health Information Pharmacy Franchising Pty Ltd	(929,237)	
Net Assets Chemconsult Aust Pty Ltd	(97,752)	
Net Assets HIP IP Pty Ltd	(17,878)	
Net Assets Leverage Finance Pty Ltd	6,877	
Net Assets Asset Trust 1 Unit Trust	3,614,980	<u>(2,576,990)</u>
		(5,715,349)
Add: Loans to be taken over by Mr Ken Lee under the Transaction		
Loan from K&J Lee Partnership	2,443,689	
Loan from HIP QLD Pty Ltd	579,642	
Loan K&J Lee Superannuation Fund	230,000	
Loan from Health for Tomorrow Pty Ltd	579,642	
Loan from Lawsfield Holdings Pty Ltd	193,214	<u>4,026,187</u>
Net Asset as per Proforma Balance Sheet		<u>(1,689,162)</u>
Improvement in Net Asset Position		<u>1,449,197</u>
Represented by:		
Consideration Paid Mr Ken Lee (as noted above)		4,026,187
Net Assets of entities to be acquired by Mr Ken Lee (as noted above)		<u>(2,576,990)</u>
Net Benefit		(1,449,197)
FME valuation of Chemconsult Australia Pty Ltd		<u>105,000</u>
Difference between Assets disposed of and Consideration		<u>(1,344,197)</u>

7. OVERVIEW OF HEALCO AND HEALCO ASSETS

7.1 Corporate History

- 7.1.1 HEALCO is an Australian listed public company first listed on the Australian Securities Exchange on 21 December 2006.
- 7.1.2 HEALCO has concentrated on the areas of pharmacy franchising and support services.
- 7.1.3 In May 2010 the Directors of HEALCO announced agreements, in relation to the future funding and direction of the Company had been undertaken with a new strategic investor group.
- 7.1.4 In conjunction with the funding agreement the Company undertook a placement of 6,940,000 ordinary shares at 0.75 cents together with a non-renounceable rights issue of one new share for every two existing shares at 0.75 cents each.
- 7.1.5 On 14 May 2010 Mr Jason Davis and Mr Tony Ince were appointed to the board of directors and Mr Graham Dunkley and Mr Greg Albert resigned.
- 7.1.6 The future business strategy of HEALCO involves concentrating on business opportunities in the medical/biotechnology sector. In accordance with this business strategy HEALCO announced on 17 August 2010 the acquisition of Intramedics Pty Ltd, a company involved in the bioscience sector.
- 7.1.7 In reviewing the current focus of HEALCO the directors determined that the disposal of the assets, the subject of the Transaction, is consistent with the boards focus on restructuring non-core or loss making ventures and pursuing opportunities in the medical/ biotechnology sector.

7.2 Business Activities

- 7.2.1 The Company's operations have included pharmacy franchising and support services including the development of the Chemconsult consultation program.
- 7.2.2 The board of directors have reviewed the current business and concluded it is in the Company's best interests to dispose of the pharmacy franchising business and Chemconsult business.

7.3 Financial Information

- 7.3.1 The Balance Sheet of HEALCO is set out at Section 6.2.3 of this report.

8. VALUATION METHODOLOGIES

8.1 Valuation Methodologies Available

8.1.1 in order to assess the fairness of the Transaction a value needs to be attributed to the HEALCO assets being acquired by Mr Ken Lee (or his nominees).

8.1.2 In assessing the value of HEALCO assets we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing assets the expert should consider the following commonly used valuation methodologies:

- Capitalisation of Future Maintainable Earnings: the value of trading operations based on the capitalization of future maintainable earnings, plus the estimated realizable value of any surplus assets and adjustments for net debt;
- Discounted Cash Flow: the net present value of future cash flows, plus the estimated realizable value of any surplus assets;
- Realisation of Assets: the amount that would be available for distribution to security holders on an orderly realization of assets;
- Comparable Market Transactions: the identification of comparable sale transactions for a similar industry company to that being valued.
- Market Value of Shares as quoted on ASX.

8.2 Selection of Methodology

We have outlined each of these valuation methodologies below and have detailed our selected methods in section 9.1.

8.2.1 Realisation of Assets

The asset approach to value is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the entity.

This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital, as the book value of the assets would not be representative of the inherent value of the business.

Asset based valuations involve a determination of the net realisable value of the assets held in the Company if those assets were realised in an orderly fashion and all liabilities were repaid. The value assessed includes a reduction for costs incurred from the sale of the assets including any tax payable and reflects time adjustments in relation to the valuation of these assets, but it is not a valuation on the basis of a forced sale of the assets, where the assets may be disposed of at a value generally different from market value.

We have determined this to be the appropriate valuation technique for some of the assets to be disposed of and the consideration being a value assigned to those assets.

8.2.2 *Capitalisation of Future Maintainable Earnings*

The capitalisation of earnings or future maintainable profits is the most frequently used method of valuing an ongoing and established business. This method of valuation is used in the majority of business valuations where there is a history of earnings, the business is established and it is assumed the earnings are sufficiently stable to be indicative of ongoing earnings potential.

Under the earnings based valuation method, the value of a business is determined by capitalising the estimated future maintainable earnings of the business at an appropriate capitalisation rate or multiple of earnings. The multiple is a coefficient, representing the risk that the business may not achieve projected earnings, and also represents the required investor return.

HCC have assessed that this methodology is not appropriate as the Company does not have an earnings history on which to base a valuation.

8.2.3 *Market Value of Shares as Quoted on the ASX*

This method involves the valuation of an entity based on its actively traded equities, which represent the market capitalisation of the share capital of the entity, in a liquid and knowledgeable market. Any assessment of the market value of the quoted equities needs to consider the following:

- The liquidity of the quoted equity based on the volume and frequency of trading;
- The number of 'unusual' and/or 'abnormal' trades that occur; and
- The timing and level of dissemination of information to the market.

If a quoted ordinary equity is traded in an active, liquid and knowledgeable market, then the market price of the quoted ordinary equity should represent the 'fair' market value of the quoted ordinary equity.

The market capitalisation of HEALCO as at 15 September 2010 was \$1,686,783, which represents an indicative market value of the Company as at that date.

HCC have determined this method is not appropriate as;

- the Transaction does not involve any shares in HEALCO but rather relates to certain assets and liabilities of HEALCO, leaving other methods more appropriate;
- the market for HEALCO shares is too thinly traded to be a reliable indicator of the value of the Company; and
- the market capitalisation also includes a value of the listing of the Company.

8.2.4 *Discounted Cash Flow – Net Present Value*

Discounted cash flow valuations involve calculating the value of a business on the basis of the net cash flow that will be generated from the business over its life. The cash flows are discounted to reflect the risk involved with achieving the forecast cash flows.

Although technically the most theoretically correct method to value a business, discounted cash flow methodology is usually very susceptible to changes in business inputs and assumptions, making it the most difficult to apply in valuing a business.

Although the discounted cash flow approach relies on the availability of long-term earnings and cash flow forecasts, it is particularly suited to situations where cash flows are not stable or where significant cash outflows will be incurred prior to cash inflows being earned.

HCC have determined this not to be an appropriate valuation methodology as management have not prepared or provided any cash flow forecasts for the business.

8.2.5 Comparable Market Transactions

This methodology involves the identification of comparable sale transactions for a similar industry company to that being valued.

HCC have determined that the comparable market transactions methodology is not appropriate in this Transaction as there is no data available for equivalent transactions.

8.3 Valuation Methods Selected

8.3.1 Health Information Pharmacy Franchising Pty Ltd

Health Information Pharmacy Franchising Pty Ltd has focused on the franchising of pharmacies. The business model has not proved successful, with the entity incurring losses and the number of franchises decreasing over time. HCC is of the opinion the appropriate valuation methodology is expected realisation of assets based on:

- i. History of losses;
- ii. No projection of cashflow is available; and
- iii. Decreasing franchise base.

8.3.2 Leverage Finance Pty Ltd

HCC is of the opinion the most appropriate valuation methodology for the valuation of Leverage Finance Pty Ltd is the net assets of the entity as indicated on the Balance Sheet of Leverage Finance Pty Ltd (after adjustment for any inter-entity transactions) based on the non-trading nature of this entity.

8.3.3 Chemconsult Australia Pty Ltd

HCC is of the opinion the most appropriate valuation methodology for the valuation of Chemconsult Australia Pty Ltd is on the basis of Future Maintainable Earnings based on:

- i. Earnings history;
- ii. Lack of Surplus Assets;
- iii. Emerging nature of the business; and
- iv. No projection of cashflows is available.

8.3.4 HIP IP Pty Ltd

HCC is of the opinion the most appropriate valuation methodology for the valuation of Leverage Finance Pty Ltd is the net assets of the entity as indicated on it's Balance Sheet (after adjustment for any inter-entity transactions) based on the non-trading nature of this entity.

8.3.5 Asset Trust 1 Unit Trust

HCC is of the opinion the most appropriate valuation methodology for the valuation of Asset Trust 1 Unit Trust is on the basis of the expected realisation of assets based on:

- i. History of losses; and
- ii. No projection of cashflows is available.

9. VALUE OF HEALCO ASSETS AND CONSIDERATION RECEIVED

HEALCO Asset	Report Section
Health Information Pharmacy Franchising Pty Ltd	9.1
Chemconsult Australia Pty Ltd	9.2
HIP IP Pty Ltd	9.3
Leverage Finance Pty Ltd	9.4
Asset Trust No 1	9.5

9.1 Health Information Pharmacy Franchising Pty Ltd

9.1.1 HCC have selected the Realisation of Assets as the appropriate valuation methodology relevant to the disposal of the shares in Health Information Pharmacy Franchising Pty Ltd ("**HIP Franchising**").

9.1.2 HIP Franchising has been operating for four years and has a history of losses. The company has a decreasing number of Franchisees and accordingly a decreasing revenue base.

9.1.3 The Balance Sheet of Health Information Pharmacy Franchising Pty Ltd as at 30 June 2010 is as follows:

HEALTH INFORMATION PHARMACY FRANCHISING PTY LTD		
BALANCE SHEET		
	30 JUNE 2010	30 JUNE 2009
<u>CURRENT ASSETS</u>		
Cash	23,668	175,909
Accounts Receivable	63,544	205,269
Other Receivables	37,464	60,598
Inventories	-	8,445
	<u>124,676</u>	<u>449,921</u>
<u>NON CURRENT ASSETS</u>		
Plant & Equipment	-	68,897
Rental Bond	8,350	8,350
Intangibles(1)	-	13,233
	<u>8,350</u>	<u>90,480</u>
TOTAL ASSETS	<u>133,026</u>	<u>540,401</u>
<u>CURRENT LIABILITIES</u>		
Trade & Other Payables	637,354	601,814
Provisions(2)	32,062	77,805

Other Liabilities	392,847	160,902
	<u>1,062,263</u>	<u>840,521</u>
TOTAL LIABILITIES	<u>1,062,263</u>	<u>840,521</u>
NET ASSETS	<u>(929,237)</u>	<u>(300,120)</u>

Note (1) Intangibles includes software development at cost less provision for depreciation/impairment.
Note (2) Provision for Annual Leave of employees

9.1.4 The Profit and Loss Statement for Health Information Pharmacy Franchising Pty Ltd is as follows;

HEALTH INFORMATION PHARMACY FRANCHISING PTY LTD		
PROFIT AND LOSS STATEMENT FOR THE PERIOD ENDED		
	30 JUNE 2010	30 JUNE 2009
Revenue	1,320,751	1,635,280
Cost of Sales	<u>102,276</u>	<u>177,859</u>
Gross Profit	1,218,475	1,457,421
Staff Expenses	1,194,979	1,515,889
Other Expenses	<u>1,072,108</u>	<u>901,442</u>
Total Expenses	<u>2,267,087</u>	<u>2,417,331</u>
Net Profit/(Loss)	<u>(1,048,612)</u>	<u>(959,910)</u>

9.1.5 HIP Franchising has a history of losses. HCC has not applied the FME methodology to HIP Franchising as it has no history of earnings.

9.1.6 Based on the Balance Sheet at Section 9.1.3 HIP Franchising has a deficiency of Assets. We have therefore assigned a value of (929,237) to this entity under the realisation of assets methodology.

9.2 Chemconsult Australia Pty Ltd

9.2.1 HCC have selected the Future Maintainable Earnings methodology as appropriate to the valuation of Chemconsult Australia Pty Ltd.

9.2.2 The Balance Sheet of Chemconsult Australia Pty Ltd is as follows:

CHEMCONSULT AUSTRALIA PTY LTD	
BALANCE SHEET	
30 JUNE 2010	
<u>CURRENT ASSETS</u>	
Cash	6,086
	<u>6,086</u>
TOTAL ASSETS	<u>6,086</u>
<u>CURRENT LIABILITIES</u>	
Trade Creditors and Accruals	103,838
	<u>103,838</u>
TOTAL LIABILITIES	<u>103,838</u>
NET ASSETS	<u>(97,752)</u>

9.2.3 The Profit and Loss Statement for Chemconsult Pty Ltd is as follows:

CHEMCONSULT AUSTRALIA PTY LTD	
PROFIT AND LOSS STATEMENT	
FY2010	
<u>REVENUE</u>	
Service Fees	6,200
Chemconsult Fees	112,301
Program Partners Fees	29,750
Miscellaneous Income	5,000
	<u>153,251</u>
TOTAL REVENUE	<u>153,251</u>
EXPENSES	<u>24,744</u>
NET PROFIT	<u>128,507</u>

9.2.4 HCC has selected the Future Maintainable Earnings (FME) methodology for valuing Chemconsult Pty Ltd.

9.2.5 FME represents the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as an

appropriate measure of the FME of Chemconsult Pty Ltd as earnings multiples based on EBITDA remove the effect of different gearing or financing structures, amortisation, depreciation and effective tax rates as compared to multiples based on net profit after tax.

9.2.6 We have selected FME of Chemconsult Pty Ltd for the purpose of this valuation to be \$35,000 based on the following:

- Chemconsult has only traded for one year and does not have an established clientele;
- No premises rental is included in the expenditure of Chemconsult and an adjustment should be made to account for this expense (HCC estimates to be \$24,000); and
- No staff or employment expenditure is included in the financial reports of Chemconsult. This expenditure is likely to be incurred if this entity maintains or develops operations and an adjustment should be made to account for this expense (HCC estimates to be \$70,000).
- No further adjustments have been made to expenditure as HCC is of the opinion that additional overheads are met by the additional associated entities of the group.

9.2.7 Businesses in the private sector, based on our experience generally sell at multiples of 2 – 8 times after tax earnings. The businesses achieving the higher multiple of earnings on sale are usually well established, with a long trading history, have existing clientele without a great reliance on one or two clients, and for which there may be significant barriers to entry to their operations.

9.2.8 We have considered the financial and non-financial information of Chemconsult Pty Ltd and assess an earnings multiple of 2 to 4 times EBITDA. The multiple chosen has been based on the following:

- Limited trading history (1 year);
- Lack of Long Term clientele;
- Ease of entry to the market for competitors;
- General economic climate; and
- Dependence on funding from parent company.

9.2.9 The following table sets out the enterprise value of Chemconsult Pty Ltd based on the FME of \$35,000 and selected earnings multiple range of 2 to 4 times EBITDA detailed above:

	<u>Low</u>	<u>High</u>
Future Maintainable Earnings	35,000	35,000
EBITDA Multiple	2	4
Enterprise Value of Chemconsult Pty Ltd	<u>\$70,000</u>	<u>\$140,000</u>

9.2.10 In our opinion the valuation of the business of Chemconsult Pty Ltd under the FME approach is in the range of \$70,000 to \$140,000 with a midpoint valuation of \$105,000 at the date of this report.

9.2.11 As part of the Transaction Mr Ken Lee will be assuming responsibility for the Net Asset Deficiency of Chemconsult Pty Ltd as shown on the Balance Sheet.

9.2.12 We have adjusted the FME valuation of Chemconsult Pty Ltd (\$105,000) for the liabilities Mr Ken Lee will assume (\$97,752).

9.2.13 The resultant value to be attributed to Chemconsult Pty Ltd is \$7,248.

9.3 HIP IP Pty Ltd

9.3.1 HCC have selected the Realisation of Assets as the appropriate valuation methodology relevant to the disposal of the shares in HIP IP Pty Ltd ("HIP IP").

9.3.2 The Balance Sheet of HIP IP Pty Ltd as at 30 June 2010 is as follows:

HIP IP PTY LTD	
BALANCE SHEET	
	30 JUNE 2010
TOTAL ASSETS	<u>0</u>
CURRENT LIABILITIES	
Lease Liabilities	<u>17,878</u>
TOTAL LIABILITIES	<u>17,878</u>
NET ASSETS	<u>(17,878)</u>

9.3.3 Based on the above Balance Sheet HIP IP has a deficiency of Net Assets. We have therefore assigned a value of (\$17,878) to this entity under the realisation of assets methodology.

9.4 Leverage Finance Pty Ltd

9.4.1 HCC have selected the Realisation of Assets as the appropriate valuation methodology relevant to the disposal of the shares in Leverage Finance Pty Ltd ("Leverage").

9.4.2 The Balance Sheet of Leverage Finance Pty Ltd as at 30 June 2010 is as follows:

LEVERAGE FINANCE PTY LTD		
BALANCE SHEET		
	30 JUNE 2010	30 JUNE 2009

<u>CURRENT ASSETS</u>		
Cash	6,877	26,789
Accounts Receivable	-	9,304
Other Current Assets	-	45,750
	<u>6,877</u>	<u>81,843</u>
TOTAL ASSETS	<u>6,877</u>	<u>81,843</u>
TOTAL LIABILITIES	<u>0</u>	<u>0</u>
NET ASSETS	<u>6,877</u>	<u>81,843</u>

9.4.3 Based on the above Balance Sheet Leverage Finance has a surplus of Assets. We have therefore assigned a value of \$6,877 to this entity under the realisation of assets methodology.

9.5 Asset Trust 1 Unit Trust

9.5.1 HCC have selected the Realisation of Assets as the appropriate valuation methodology relevant to the disposal of the units in Asset Trust 1 Unit Trust (“**Asset Trust**”).

9.5.2 The Balance Sheet of Asset Trust 1 Unit Trust as at 30 June 2010 is as follows:

ASSET TRUST 1 UNIT TRUST	
BALANCE SHEET	
30 JUNE 2010	
<u>CURRENT ASSETS</u>	
Cash	<u>13,653</u>
	13,653
<u>NON CURRENT ASSETS</u>	
Loans Receivable	<u>13,912,935</u>
	13,912,935
TOTAL ASSETS	<u>13,926,558</u>
<u>CURRENT LIABILITIES</u>	
Accruals	<u>535,901</u>
	535,901
<u>NON CURRENT LIABILITIES</u>	
Loan – National Australia Bank	<u>9,775,677</u>
	9,775,677
TOTAL LIABILITIES	<u>10,311,578</u>
NET ASSETS	<u>3,614,980</u>

- 9.5.3 The Loans Receivable of Asset Trust 1 Unit Trust include loans to the Brimbank, Castle Hill and Morningside Health Information Pharmacy Franchises. The FY2010 audited Financial Statements of HEALCO include these loans at an amount equating to realisable value. Based on the underlying values of the pharmacies HCC have relied on that valuation for the purposes of this report.
- 9.5.4 Based on the above Balance Sheet Asset Trust 1 Unit Trust has Net Assets of \$3,614,980. We have therefore assigned a value of \$3,614,980 to this entity under the realisation of assets methodology.
- 9.5.5 A secondary methodology has not been selected due to the limited trading history, prior losses and the unsuitability of any additional methodology.

9.6 Conclusion on the Value of HEALCO assets

- 9.6.1 The June 2010 Audited Balance Sheet of HEALCO records the assets to be disposed of in the Transaction at their current realisable value. Due to the financially quantifiable nature of the loan assets we have relied on the valuation in the Financial Statements of each entity for the purpose of our report.
- 9.6.2 The Transaction will result in a gain to Health Corporation Limited. Health Corporation Limited has taxation losses brought forward to the start of the 2011 financial year. The Transaction will result in utilisation of some of these losses to the extent of the gain made, through either the commercial debt forgiveness rules or the taxable gain made on the sale of the subsidiary entities. The gain made will be less than the taxation losses available, therefore no taxation will be payable as a result of the Transaction.
- 9.6.3 Based on the above, in our opinion the value of the individual HEALCO assets for the purpose of this report are as follows:

HEALCO Asset	Current Value
Health Information Pharmacy Franchising Pty Ltd	(929,237)
Chemconsult Australia Pty Ltd	7,248
HIP IP Pty Ltd	(17,878)
Leverage Finance Pty Ltd	6,877
Asset Trust 1 Unit Trust	3,614,980
Total Collective Asset Value	\$2,681,990

- 9.6.4 Therefore, for the purpose of this report, in our opinion, the fair market value of the collective HEALCO assets being disposed of to Mr Ken Lee (or his nominees) is **\$2,681,990**.

9.7 HEALCO Proposed Disposal Prices

9.7.1 In determining the disposal values of the relevant HEALCO assets, HCC has determined values for the liabilities of HEALCO to be assumed by Mr Ken Lee (or his nominees) as follows:

HEALCO Liability	Proposed Consideration
K&J Lee Partnership	2,443,689
HIP QLD Pty Ltd	579,642
K&J Lee Superannuation Fund	230,000
Health For Tomorrow Pty Ltd	579,642
Lawsfield Holdings Pty Ltd	193,214
Total Liabilities Value	4,026,187

9.7.2 The values are based on the values of the loans in the June 2010 Audited Financial Statements of HEALCO. Due to the financial nature of the liabilities we have accepted the audited values.

9.7.3 Therefore, for the purpose of this report, in our opinion, the fair market value of the HEALCO liabilities being assumed by Mr Ken Lee (or his nominees) is **\$4,026,187**.

10. ADVANTAGES & DISADVANTAGES OF THE TRANSACTION

10.1 Approach to assessing Fairness and Reasonableness

HCC has followed the guidelines of ASIC Regulatory Guide 111 in assessing the fairness and reasonableness of the Transaction. In forming its conclusions in this report, HCC compared the advantages and disadvantages for Non-Associated Shareholders if the Transaction proceeds.

10.2 Advantages of the Transaction

10.2.1 The Net Asset position as detailed the Balance Sheet of HEALCO will be improved.

10.2.2 The Company will have disposed of its loss making businesses.

10.2.3 The Company will be able to pursue its current strategy of investing in opportunities in the medical/biotechnology sector.

10.2.4 The debt of the Company will decrease and may not be in breach of covenants after the Transaction.

10.2.5 The Company will have disposed of its loss making businesses.

10.3 Disadvantages of the Transaction

10.3.1 The Company will cease to own the HEALCO assets disposed.

10.3.2 The Company will not obtain any benefit from any economic gains, such as an increase in value, that may arise in the future in relation to the HEALCO assets disposed of.

11. CONCLUSION AS TO FAIRNESS AND REASONABLENESS

11.1 Fairness

For the Transaction to be fair, the value of the liabilities being assumed by Mr Ken Lee (or his nominees) must be equal to or greater than the value of the HEALCO assets being disposed of to Mr Ken Lee (or his nominees).

Based on the analysis contained in this report, the fair market value of the collective HEALCO assets being disposed of to Mr Ken Lee (or his nominees) is **\$2,681,990**.

Based on the analysis contained in this report, the fair value of the liabilities being assumed by Mr Ken Lee (or his nominees) for the HEALCO assets are **\$4,026,187**.

Therefore, based on a comparison of the value attributed to HEALCO assets and the liabilities being assumed by Mr Ken Lee (or his nominees), in our opinion the Transaction is fair.

11.2 Reasonableness

ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The transaction is fair; or
- Despite not being fair the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

We have concluded that the Transaction is fair and therefore by definition reasonable.

In forming our opinion we have considered the following relevant factors:

- The Net Asset position as detailed the Balance Sheet of HEALCO will be improved.
- The Company will have disposed of its loss making businesses.
- The Company will be able to pursue its current strategy of investing in opportunities in the medical/biotechnology sector.
- The debt of the Company will decrease and may not be in breach of covenants after the Transaction.
- The Company will not obtain any benefit from any economic gains, such as an increase in value that may arise in the future in relation to the HEALCO assets disposed of.

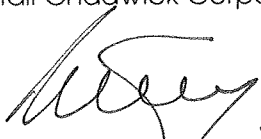
Accordingly, in our opinion, having considered the advantages of the Transaction and the alternatives of not proceeding with the Transaction, in our opinion the

Non-Associated Shareholders of HEALCO should benefit if the Transaction proceeds and therefore, in our opinion, the Transaction is reasonable.

11.3 General

- Appendix I – Details the sources of information that were reviewed and relied on in preparing this report;
- Appendix II – Details the qualifications and experience of HCC and of the persons involved in preparing this report which also contains declarations that form part of, and should be read in conjunction with the report;
- Appendix III – Financial Services Guide

Yours faithfully
Hall Chadwick Corporate (NSW) Limited



DAVID KENNEY

APPENDIX I - SOURCES OF INFORMATION

- Audited financial reports of Health Corporation Limited for the years ended 30 June 2010 and 30 June 2009;
- Terms Sheet Agreement between Health Corporation Limited and Mr Ken Lee;
- Health Corporation Limited Market update - 16 June 2010;
- ASX announcements;
- Regulatory Guide 74 'Acquisitions Agreed to by Shareholders';
- Regulatory Guide 111 'Content of Expert Reports';
- Regulatory Guide 112 'Independence of Expert's Reports'; and
- APES 225 'Valuation Services'.

APPENDIX II - STATEMENT OF DECLARATION & QUALIFICATIONS

Confirmation of Independence

Prior to accepting this engagement HCC determined its independence with respect to Health Corporation Ltd with reference to ASIC Regulatory Guide 112 (RG 112) titled "Independence of Expert's Reports". HCC considers that it meets the requirements of RG 112 and that it is independent of Health Corporation Ltd.

Also, in accordance with s648A of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with Health Corporation Ltd, its related parties or associates that would compromise our impartiality.

Mr David Kenney, a director of Hall Chadwick Corporate (NSW) Limited, who is a registered company auditor, has prepared this report. Neither he nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of this Transaction nor will Hall Chadwick Corporate (NSW) Limited receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed Transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, HCC does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

HCC provided a draft copy of this report to the Directors and management of Health Corporation Ltd for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of HCC alone. Changes made to this report, as a result of the review by the Directors and management of Health Corporation Ltd have not changed the methodology or conclusions reached by HCC.

Reliance on Information

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report HCC has relied upon information provided on the basis it was reliable and accurate. HCC has no reason to believe that any information supplied to it was false or that any material information (that a reasonable person would expect to be disclosed) has been withheld from it. HCC evaluated the information provided to it by Health Corporation Ltd as well as other parties, through enquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Accordingly, we have taken no further steps to verify the accuracy, completeness or fairness of the data provided.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS). HCC does not imply and it should not be construed that it has audited or in anyway verified any of the information provided to it, or that its enquiries could have verified any matter which a more extensive examination might disclose.

The sources of information that we relied upon are outlined in Appendix I of this report.

Health Corporation Ltd has provided an indemnity to HCC for any claims arising out of any mis-statement or omission in any material or information provided by Health Corporation Ltd to HCC in preparation of this report.

Qualifications

Hall Chadwick Corporate (NSW) Limited ("HCC") carries on business at Level 29, St Martin's Tower, 31 Market Street, Sydney NSW 2000. HCC holds Australian Financial Services Licence No. 227902 authorising it to provide financial product advice on securities to retail clients. HCC's representatives are therefore qualified to provide this report.

Consent and Disclaimers

The preparation of this report has been undertaken at the request of the Directors of Health Corporation Ltd. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any other purpose than to accompany the Notice of Meeting to be sent to Health Corporation Ltd shareholders. In particular, it is not intended that this report should be used for any purpose other than as an expression of HCC's opinion as to whether or not the proposed Transaction is fair and reasonable. HCC consent to the issue of this report in the form and context in which it is included in the Notice of Meeting to be sent to Health Corporation Ltd shareholders.

Shareholders should read all documents issued by Health Corporation Ltd that consider the proposed Transaction in its entirety, prior to proceeding with a decision. HCC had no involvement in the preparation of these additional documents, with the exception of this report.

This report has been prepared specifically for the unassociated shareholders of Health Corporation Ltd. Neither HCC, nor any member or employee thereof undertakes responsibility to any person, other than an unassociated shareholder of Health Corporation Ltd, in respect of this report, including any errors or omissions howsoever caused. This report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

HCC its officers, representatives, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from the information contained in the documents for any loss or damage suffered by any person directly or indirectly through reliance on this information.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS).

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no

requirement for HCC to update this report for information that may become available subsequent to this date.

APPENDIX III - FINANCIAL SERVICES GUIDE

Hall Chadwick Corporate (NSW) Limited ("HCC") carries on business at Level 29, St Martin's Tower, 31 Market Street, Sydney NSW 2000. HCC holds Australian Financial Services Licence No. 227902 authorising it to provide financial product advice on securities to retail clients.

The Corporations Act 2001 requires HCC to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document provided to members by the company or other entity for which HCC prepares the Report.

HCC does not accept instructions from retail clients. HCC provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. HCC does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, HCC's client is the Entity to which it provides the Report. HCC receives its remuneration from the Entity. In respect of the Report for Health Corporation Limited ("HEALCO") in relation to the proposed sale of assets to Mr Ken Lee (or his nominees), HCC will receive a fee for its services on a time cost basis estimated to be \$20,000, excluding GST.

No related body corporate of HCC, or any of the directors or employees of HCC or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

HCC is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission. The following information in relation to the independence of HCC is stated in Appendix II of the HEALCO Report:

"Hall Chadwick Corporate (NSW) Limited ("HCC") has a license to prepare reports under the Corporations Act and its representatives are qualified to provide this report. Prior to accepting this engagement HCC determined its independence with respect to HEALCO with reference to ASIC Regulatory Guide 112 (RG 112) entitled "Independence of Expert's Reports". HCC considers that it meets the requirements of RG 112 and that it is independent of HEALCO.

Also, in accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with HEALCO, its related parties or associates that would compromise our impartiality.

Mr David Kenney, a director of Hall Chadwick Corporate (NSW) Limited, has prepared this report. Neither he nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of the Transaction nor will Hall Chadwick Corporate (NSW) Limited receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed Transaction, and has been calculated with reference to time spent on the engagement at normal professional fee

rates for work of this type. Accordingly, HCC does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement."

HCC has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, membership number 11442.

HCC is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to HCC who is not responsible for that document. HCC will not respond in any way that might involve any provision of financial product advice to any retail investor.