healthzone LIMITED

PRELIMINARY FINANCIAL REPORT 30 JUNE 2010 APPENDIX 4E

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APPENDIX 4E

PRELIMINARY FINANCIAL REPORT - 30 JUNE 2010

HEALTHZONE LIMITED PROFIT UP 47.1%

SYDNEY; 31 August 2010 - Australia's leading natural products distributor, franchise retailer and producer of health, beauty and natural products, Healthzone Limited (ASX: HZL. OTCQX: HLTZY), today announced a 47.1% increase in consolidated Net Profit After Tax to $4.39 million. Sales revenues increased by 8.4% to $112.69 million compared to $103.93 million for the previous corresponding period in FY2009. Healthzone has lifted EBITDA 38.9% from $6.3 million to $8.98 million for the 2010 financial year. Earnings Per Share increased by 15.9% from 6.9 cents to 8.0 cents, despite a 68.1% increase in the number of shares on issue arising from the issue of 32.04 million new shares in the FY2010 year.

The table below is a summary of Healthzone's financial results:

Healthzone Limited Operating Performance	Year Ended 30 June 2009 $'Million	Year Ended 30 June 2010 $'Million	Change
Revenue	104.0	112.7	+8%
EBITDA	**6.3**	**9.0**	**+43%**
Pre-Tax Profit	3.7	5.7	+54%
Net Profit After Tax	**3.0**	**4.4**	**+47%**
Earnings per share	6.9 cents	8.0 cents	+16%
Net tangible liability backing per ordinary share	13.3 cents	4.6 cents	+65%

Highlights

- Eu Yan Sang Asian Alliance
- Launch of Healthy Life China – 100 sites by 2012
- Established ADR listing on OTCQX exchange
- Growth in net assets by $13.14 million
- Acquired Gold Mist Health Retail Chain
- Capital Raise Completed

Healthzone Executive Chairman Peter Roach said, "The Company's outstanding results have been delivered notwithstanding a difficult retail trading environment and is a testament to the success of our strategy to increase profits through the conversion of our low GP sales to high GP sales and as a result we have grown profits ahead of revenues in a year of significant investment into our own branded products and retail."

Mr Roach said, "We are very pleased with the performance of Healthzone. The business continues to deliver consistently outstanding results year after year, in contrast to the significant volatility being experienced by the wider retail sector. Healthy Life China will only add to that growth and stability in the future. We have introduced 143 new own branded products to our own brand ranges and through a variety of value added services our new distribution business margins are an average of 42% up on the traditional low margin distribution model of our acquired businesses. Our Healthy Life retail business continues to grow with healthy revenue growth and margin expansion. Average warehouse purchases by the Healthy Life franchise have grown from 38.3% in FY2009 to 46.5% in FY2010 with increasing support for our own branded products providing over four times the GP margin of third party distributed products to our markets. The Company has outperformed the sector growth of 6.5% in our core market to deliver our fourth year of record sales and profits."
Healthzone's international growth strategy in markets much larger than Australia have continued to gain momentum and in

particular mainland China. Our new alliance partnership with Eu Yang Sang as a 15% investor in Healthzone has provided capital,influence and competitive advantage in Asia with Eu Yan Sang a household name in Singapore, Malaysia, Hong Kong andMacau. Healthzone is partnering with Eu Yan Sang to accelerate the roll out of Healthy Life China as a vehicle for their respectiveentities to drive their unique yet complementary ranges of Western and Traditional Medicine product ranges in the $30 billion China market growing in excess of 17% per annum.

Outlook

Mr Roach said, "While the challenges of the retail market will remain in the coming year, we are confident we have the people and a solid strategy for growth in Australia and Asian markets. Eu Yan Sang as a new and strategic shareholder will provide influence to deepen our penetration into both emerging and established markets through our own brand and retail strategy in these markets. The initiatives Healthzone has introduced over the last year to expand our customer reach and leverage our 470,000 customer database, to deliver innovative new products, and grow the Asian business have placed the Company well for healthy growth in FY2011."

With continuing assessment of business growth initiatives the Board has resolved to not declare a dividend for the year to 30 June 2010. The audit of the statutory results is being finalised for the year to 30 June 2010 and as a result the preliminary financial report is unaudited. Any additional Appendix 4E disclosure requirements can be found in the notes to the preliminary financial report.

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Healthzone Limited

Income Statement

For the Year Ended 30 June 2010

		Consolidated	
	Notes	2010 $ '000	2009 $ '000
Revenue from continuing operations	2	112,693	103,932
Other income	2	323	524
Raw materials and consumables used		(84,527)	(81,886)
Freight		(2,055)	(1,827)
Employee benefits expense		(9,352)	(8,450)
Depreciation and amortisation expense		(325)	(198)
Professional and consulting expenses		(632)	(522)
Operating lease rental expenses		(2,676)	(2,846)
Selling and marketing expenses		(2,303)	(514)
Travel expenses		(270)	(307)
Interest and finance charge expenses		(2,952)	(2,616)
Other expenses		(2,230)	(1,661)
Share of net profits of associates accounted for using the equity method		10	24
Profit before income tax		**5,704**	**3,653**
Income tax expense		(1,311)	(666)
Profit attributable to members of Healthzone Limited		**4,393**	**2,987**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share		8.0 cents	6.9 cents
Diluted earnings per share		8.0 cents	6.9 cents

The above Income Statement should be read in conjunction with the accompanying Notes.

Healthzone Limited

Statement of Comprehensive Income

For the Year Ended 30 June 2010

	Consolidated	
	2010 $ '000	2009 $ '000
Net profit for the period	4,393	2,987
Other comprehensive income		
Foreign currency translation	(397)	(8)
Other comprehensive income for the period net of tax	(397)	(8)
Total comprehensive income for the year	**3,996**	**2,979**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

Healthzone Limited

Statement of Financial Position

For the Year Ended 30 June 2010

	Notes	Consolidated 2010 $ '000	2009 $ '000
ASSETS			
Current assets			
Cash and cash equivalents		2,482	2,420
Trade and other receivables	9	20,878	21,852
Inventories		12,190	6,530
Total current assets		**35,550**	**30,802**
Non-current assets			
Other receivables	9	5,933	4,500
Investments accounted for using the equity method	10	900	640
Property, plant and equipment		2,494	693
Deferred tax assets		2,853	2,115
Intangible assets	11	36,428	25,900
Other financial assets		14	76
Total non-current assets		**48,622**	**32,424**
Total assets		**84,172**	**64,726**
LIABILITIES			
Current liabilities			
Trade and other payables	12	33,937	26,136
Borrowings	13	3,815	2,316
Current tax liabilities		489	251
Provisions		538	767
Total current liabilities		**38,780**	**29,470**
Non-current liabilities			
Borrowings	13	10,943	14,217
Deferred tax liabilities		1,594	1,322
Provisions		72	69
Total non-current liabilities		**12,609**	**15,608**
Total liabilities		**51,389**	**45,078**
Net assets		**32,783**	**19,648**
EQUITY			
Contributed equity	4	21,704	12,566
Reserves		(428)	(31)
Retained profits		11,507	7,113
Total equity		**32,783**	**19,648**

The above Statement of Financial Position should be read in conjunction with the accompanying Notes.

Healthzone Limited

Statement of Changes in Equity

For the Year Ended 30 June 2010

	Consolidated	
	2010 $ '000	2009 $ '000
Total equity at the beginning of the financial year	**19,648**	**13,710**
Exchange differences on translation of foreign operations	(397)	(8)
Total income and expenses recognised for the period	4,393	2,987
Shares issued as consideration for business acquisition	600	2,733
Other shares issued net of transaction costs	8,539	226
Total equity at the end of the financial year	**32,783**	**19,648**

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

Healthzone Limited

Statement of Cash Flows

For the Year Ended 30 June 2010

	Notes	Consolidated 2010 $ '000	2009 $ '000
Cash flows from operating activities			
Receipts from customers and licensee (inclusive of goods and services tax)		126,452	109,383
Payments to suppliers and employees (inclusive of goods and services tax)		(121,760)	(104,450)
Interest received		20	149
Interest and finance charge expenses		(2,952)	(2,616)
Income taxes paid		(113)	(62)
Net cash inflow from operating activities		**1,647**	**2,404**
Cash flows from investing activities			
Payments for property, plant and equipment		(170)	(409)
Payment for purchase of business	14	(38)	-
Payment for investment in wholly owned subsidiaries	14	(2,717)	(1,794)
Payment for purchase of intangibles		(1,757)	(1,357)
Proceeds from sale of property, plant and equipment		13	27
Net cash (outflow) from investing activities		**(4,669)**	**(3,533)**
Cash flows from financing activities			
Proceeds from issues of shares		6,748	-
Share issue transaction costs		(1,122)	(11)
Proceeds from borrowing		135	-
Repayment of borrowing		(2,679)	(3,276)
Net cash inflow / (outflow) from financing activities		**3,082**	**(3,287)**
Net increase / (decrease) in cash and cash equivalents		**60**	**(4,416)**
Cash and cash equivalents at the beginning of the financial year		2,420	6,787
Effects of exchange rate changes on cash and cash equivalents		2	49
Cash and cash equivalents at the end of the financial year		**2,482**	**2,420**

The above Statement of Cash Flows should be read in conjunction with the accompanying Notes.

HEALTHZONE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR TO 30 JUNE 2010

Note 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Consolidated Preliminary Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Comparative information is reclassified where appropriate to enhance comparability.

Basis of Preparation

The Consolidated Preliminary Financial Statements have been prepared in accordance with ASX listing rule 4.3A, the recognition and measurement requirements of the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Consolidated Preliminary Financial Statements do not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report and any public announcements made by Healthzone Limited during the reporting period and up to the date of this report in accordance with the continuous disclosure requirements of the Australian Stock Exchange and the Corporations Act 2001.

The Consolidated Preliminary Financial Statements have been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies adopted are consistent with those of the previous financial year except as set out below:

• Presentation of the financial statements. As a consequence of the adoption of AASB 101 Presentation of Financial Statements and its associated amending standards the statement of comprehensive income has been included as well as the income statement and what was previously termed the 'balance sheet' is now the statement of financial position.

• Business combinations: A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes. All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition. Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill. Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets. If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax. The changes were implemented prospectively from 1 July 2009 and affected the accounting for the acquisition of Gold Mist Health Pty Limited. Contingent consideration of $1.0m was recognised at fair value on 30 June 2010. It would not previously have been recorded at the date of acquisition, as the payment to the former owners of Gold Mist Health Pty Limited was not probable. No material acquisition related costs were recognised in profit or loss in the 2010 financial year.

• Segment reporting: The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has had no effect in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the company's assets and liabilities.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 2 Revenue

	Consolidated	
	2010 $ '000	2009 $ '000
Sales revenue		
Sales of goods to external customers	104,678	98,317
Sales of goods to other related parties	2,242	1,063
Total sales revenue	**106,920**	**99,380**
Other revenue		
Licence revenue and master franchise revenue	3,043	3,177
Interest income from financial institutions	20	149
Interest income from other parties	1,369	411
Service fees	800	-
Other revenue	541	815
Total other revenue	**5,773**	**4,552**
Total revenue	**112,693**	**103,932**
Other income		
Foreign exchange gain	323	405
Proceeds from insurance claim	-	119
Total other income	**323**	**524**

Note 3 Segment Information

Identification of reportable segments
The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of service line manager and country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services
Retail
The retail business is engaged in the sale of vitamins and health supplements to the general public. The retail business has been determined as both an operating segment and reportable segment.

Wholesale
The wholesale business is engaged in the production and wholesale of fragrances, beauty and health products. The wholesale business has been determined as both an operating segment and reportable segment.

Accounting policies and inter-segment transactions
The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period except as detailed below:

Inter-entity sales
Inter-entity sales are recognised based on an internally set transfer price. The price is set bi-annually and aims to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

Corporate charges
Corporate charges comprise non-segmental expenses such as head office expenses and interest and non-segmental revenue such as interest and dividend income. Corporate charges are not allocated to business segments.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:
- Dividend revenue
- Finance costs - including adjustments on provisions due to discounting.
- Impairment of assets - impairment of assets are not included in the measurement of segment profit or loss where they are not expected to recur.

Major customers
The Group has a number of customers to which it provides both products and services. No single customer accounts for more than 10% of the Group's total revenue.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

(a) Business Segments

The business segments within which the consolidated entities operate are (a) retailing of vitamins and health supplements and (b) production and wholesale of fragrances and health and beauty products. For primary reporting purposes the entity operates in the business segments described above.

2010	Wholesale $ '000	Retail $ '000	Intersegment Eliminations/ Unallocated $ '000	Consolidated $ '000
Revenue				
Sales of goods	98,747	7,631	-	106,378
Intersegment sales	9,028	-	(9,028)	-
Total sales revenue	**107,775**	**7,631**	**(9,028)**	**106,378**
Other revenue	1,920	3,621	773	6,315
Intersegment sales	1,058	77	(1,135)	-
Total revenue	**110,753**	**11,329**	**(9,390)**	**112,693**
Results				
Segment net operating profit before tax	4,289	2,830	-	7,118
Intersegment revenue less intersegment expenses	(935)	77	858	-
Unallocated revenue less unallocated expenses	-	-	(1,414)	(1,414)
Total net profit before tax	**3,354**	**2,907**	**(556)**	**5,704**
Income tax expense				(1,311)
Total net profit after tax				**4,393**
Interest revenue	633	-	756	1,389
Interest and finance expense	1,483	5	659	2,147
Depreciation	154	65	22	241
Impairment of assets	1,439	-	(1,439)	-
Other non-cash expenses	81	3	-	84
Income tax expense	771	668	(128)	1,311
Segment assets				
Segment assets	48,380	20,092	-	68,472
Unallocated assets	-	-	15,700	15,700
Total assets	**48,380**	**20,092**	**15,700**	**84,172**
Investments in associate	-	900	-	900
Capital expenditure	1,208	9,317	-	10,525
Segment liabilities				
Segment liabilities	27,083	5,250	-	32,333
Unallocated liabilities	-	-	19,056	19,056
Total liabilities	**27,083**	**5,250**	**19,056**	**51,389**
Cash flow information				
Net cash inflow from operating activities	566	1,081	-	1,647
Net cash outflow from investing activities	(4,641)	(28)	-	(4,669)
Net cash inflow from financing activities	2,311	770	-	3,081

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

2009	Wholesale $ '000	Retail $ '000	Intersegment Eliminations/ Unallocated $ '000	Consolidated $ '000
Revenue				
Sales of goods	91,201	8,179	-	99,380
Intersegment sales	4,107	-	(4,107)	-
Total sales revenue	**95,308**	**8,179**	**(4,107)**	**99,380**
Other revenue	503	4,049	-	4,552
Intersegment other revenue	1,445	-	(1,445)	-
Total revenue	**97,256**	**12,228**	**(5,552)**	**103,932**
Results				
Segment net operating profit before tax	1,011	2,642	-	3,653
Intersegment revenue less intersegment expenses	-	-	-	-
Unallocated revenue less unallocated expenses	1,501	-	(1,501)	-
Total net profit before tax	**2,512**	**2,642**	**(1,501)**	**3,653**
Income tax expense				(666)
Total net profit after tax				**2,987**
Interest revenue	558	2	-	560
Interest expense	4	1	2,127	2,132
Depreciation	119	79	-	198
Other non-cash expenses	3	-	-	3
Income tax expense	458	482	(274)	666
Segment assets				
Segment assets	54,993	5,192	-	60,185
Unallocated assets	-	-	4,542	4,542
Total assets	**54,993**	**5,192**	**4,542**	**64,727**
Investments in associate	-	640	-	640
Capital expenditure	4,038	14	-	4,052
Segment liabilities				
Segment liabilities	49,284	386	-	49,670
Unallocated liabilities	-	-	(4,594)	(4,594)
Total liabilities	**49,284**	**386**	**(4,594)**	**45,076**
Cash flow information				
Net cash inflow from operating activities	1,432	972	-	2,404
Net cash outflow from investing activities	(3,519)	(14)	-	(3,533)
Net cash inflow from financing activities	(2,465)	(822)	-	(3,287)

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

(b) Reconciliations

i) Segment revenue reconciliation to the statement of comprehensive income

	2010 $'000	2009 $'000
Segment revenue	122,083	109,484
Inter-segment sales elimination	(10,163)	(5,552)
Unallocated revenue	773	-
Total revenue	**112,693**	**103,932**

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers. The company does not have external revenues from external customers that are attributable to any foreign country other than as shown.

	2010 $'000	2009 $'000
Australia	109,239	101,830
China	4,111	3,492
Less intersegment revenue	(657)	(1,390)
Total revenue	**112,693**	**103,932**

ii) Segment net operating profit before tax reconciliation to the statement of comprehensive income.

The board of directors meets on a monthly basis to assess the performance of each segment by analysing the segment's profit before tax.
A segment's profit before tax excludes non operating items such as corporate and impairment charges.

	2010 $'000	2009 $'000
Segment profit before tax	7,118	5,154
Corporate charges	(1,414)	(1,501)
Intersegment sales and expenses	858	-
Intersegment eliminations	(858)	-
Total net profit before tax per the statement of comprehensive income	**5,704**	**3,653**

iii) Segment assets reconciliation to the statement of financial position.

In assessing the segment performance on a monthly basis, the board of directors analyses the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the management committee views as directly attributing to the performance of the segment. These assets exclude intersegment assets.

Reconciliation of segment operating assets to total assets	2010 $'000	2009 $'000
Segment assets	68,472	60,185
Corporate assets	15,700	4,542
Total assets per the statement of financial position	**84,172**	**64,727**

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

The analysis of the location of non-current assets other than financial instruments, deferred tax assets and AASB pension assets is as follows:

	2010 $'000	2009 $'000
Australia	45,673	30,150
China	82	83
Total	**45,755**	**30,233**

iv) Segment liabilities reconciliation to the statement of financial position.

Segment liabilities excludes corporate liabilities. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations. The executive management committee reviews the liabilities of each segment in the monthly meetings.

	2010 $'000	2009 $'000
Segment operating liabilities	32,333	49,670
Corporate liabilities	19,096	(4,594)
Total liabilities per the statement of financial position	**51,389**	**45,076**

Note 4 Contributed Equity

	Parent Entity	
	2010 Shares	2009 Shares
Share capital		
Fully paid ordinary shares	79,089,299	47,049,950

Movements	Details	Number of Shares	Issue Price	$ '000
Opening balance 1 July 2008		**40,923,469**		**9,607**
30 September 2008	Share issue	470,000	50.00 cents	235
25 November 2008	Share issue	10,000	23.50 cents	2
10 February 2009	Share issue	5,646,481	48.41 cents	2,733
	Share issue costs			(14)
	Deferred tax credit recognised directly in equity			3
Total movements		**6,126,481**		**2,959**
Opening balance 1 July 2009		**47,049,950**		**12,566**
8 September 2009	Share issue	2,039,349	29.00 cents	600
18 January 2010	Share issue	7,333,333	30.00 cents	2,200
19 April 2010	Share issue	8,899,994	30.00 cents	2,670
24 May 2010	Share issue	5,102,772	30.00 cents	1,531
25 May 2010	Share issue	8,663,901	30.00 cents	2,599
	Share issue costs			(660)
	Deferred tax credit recognised directly in equity			198
Total movements		**32,039,349**		**9,138**
Closing balance 30 June 2010		**79,089,299**		**21,704**

(a) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amount paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Capital Risk Management

The Group's objective when managing capital is to safeguard the ability to continue as a going concern, so that the Group can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell shares to reduce debt.

The Group monitors capital on the basis of the gearing ratios. This ratio is calculated as time-weighted net debt (total borrowing less cash and cash equivalents) divided by EBITDA (earnings before interest, tax, depreciation and amortisation). The Group's strategy is to maintain weighted Debt/EBITDA at less than 3.75 times. The weighted Debt/EBITDA ratio for the Group was 1.6 times for the year ended 30 June 2010 (2009: 2.5 times).

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 5 Subsidiaries

The consolidated financial statements incorporate the assets and liabilities and results of the following subsidiaries in accordance with the accounting policy.

Name of entity	Country Of Incorporation	Class Of Shares	Equity Holding 2010	Equity Holding 2009
			%	%
NHB China Limited	China	Ordinary	100	100
Bod International Pty Limited	Australia	Ordinary	100	100
Healthzone Solutions Pty Limited	Australia	Ordinary	100	100
Healthminders International Pty Limited	Australia	Ordinary	100	100
Healthminders (WA) Pty Limited	Australia	Ordinary	100	100
Healthy Life Partners Pty Limited	Australia	Ordinary	100	100
Health Minders Finance Pty Limited	Australia	Ordinary	100	100
Super Boost Effervescent Vitamins Pty Limited	Australia	Ordinary	100	100
Health Minders Milperra Pty Limited	Australia	Ordinary	100	100
DVC Discount Vitamin Centres Pty Limited	Australia	Ordinary	100	100
Newco (Victoria) Pty Limited	Australia	Ordinary	100	100
Jasham International Pty Limited	Australia	Ordinary	100	100
HZL1 Pty Limited	Australia	Ordinary	100	100
HZL2 Pty Limited	Australia	Ordinary	100	100
HZL3 Pty Limited	Australia	Ordinary	100	100
Healthy Life China Pty Limited*	Australia	Ordinary	1	100
HZL5 Pty Limited	Australia	Ordinary	100	100
Healthminders Pty Limited	Australia	Ordinary	100	100
Gold Mist Health Pty Limited	Australia	Ordinary	100	-

*On 28 June 2010 the company changed its name from HZL4 Pty Limited to Healthy Life China Pty Limited and issued shares to a third party.

Note 6 Contingencies

The Group had contingent liabilities at 30 June 2010 in respect of:

Leases

The Group is the master franchisor of the Healthy Life retail franchise and holds head leases in relation to retail stores that are licensed to some franchisees. In accordance with the terms of those licences the franchisee is primarily responsible for lease liabilities and has provided guarantees to respective landlords in relation to those premises. In the event that a franchisee is unable to continue a retail lease the landlord is required under the Retail Lease Act to re-lease the premises. In such an event the franchisee is primarily liable for any lease shortfall amount. Contingent liabilities of the Group in relation to these leases are $5.0 million.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 7 Commitments for Expenditure

	Consolidated	
	2010	2009
	$ '000	$ '000
Operating leases - property		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	4,387	5,205
Later than one year but not later than 5 years	3,543	6,672
Later than 5 years	-	-
Total operating leases	7,930	11,877
Operating leases – equipment		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	159	464
Later than one year but not later than 5 years	135	311
Later than 5 years	-	-
Total operating leases	294	775

Note 8 Events Occurring after Reporting Date

There were no material events subsequent to reporting date impacting upon the consolidated entity.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 9 Current Assets – Trade and Other Receivables

	Consolidated	
	2010 $ '000	2009 $ '000
Current		
Trade receivables	12,566	17,306
Receivables from directors' related parties	-	2,069
Government grant (EMDG) receivable	210	210
Share capital proceeds receivable	2,252	-
Prepaid capital raising costs	760	-
Marketing contributions receivables	740	406
Other receivables and prepayments	4,522	1,861
Total	**20,878**	**21,852**
Non-current		
Receivable from associate	2,933	1,500
Loans to other parties (1)	3,000	3,000
Total	**5,933**	**4,500**

(1) The receivable is part secured by securities held by the borrower. Interest is receivable at commercial rates.

Note 10 Investment In Associate

	Consolidated	
	2010 $ '000	2009 $ '000
(a) Movements in carrying amount		
Carrying amount at the beginning of the financial year	640	616
Acquired during the year	250	-
Share of profits	10	24
Dividends received/receivable	-	-
Carrying amount at the end of the financial year	**900**	**640**

(b) Summarised financial information of associate

The Group's share of the results of its associate and its aggregated assets (including goodwill), and liabilities are as follows:

	Ownership %	Assets $ '000	Liabilities $ '000	Revenues $ '000	Profit $ '000
2010					
Wild Food Natural Health Market Pty Limited (ACN: 002 596 992)	40%	303	118	76	10
2009					
Wild Food Natural Health Market Pty Limited (ACN: 002 596 992)	20%	151	59	69	24
2010					
Healthy Life China Pty Ltd (ACN: 136 831 582)	1%	32	30	-	(11)

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 11 Non-Current Assets – Intangible Assets

	Goodwill	Product Development	Information Technology Development	Total
Consolidated	**$'000**	**$'000**	**$'000**	**$'000**
At 1 July 2008				
Cost	21,482	412	62	21,956
Accumulated amortisation and impairment	-	-	-	-
Net book amount	**21,482**	**412**	**62**	**21,956**
Year ended 30 June 2009				
Opening net book amount	21,482	412	62	21,956
Additions	2,587	998	359	3,944
Closing net book amount	**24,069**	**1,410**	**421**	**25,900**
At 30 June 2009				
Cost	24,069	1,410	421	25,900
Accumulated amortisation and impairment	-	-	-	-
Net book amount	**24,069**	**1,410**	**421**	**25,900**
At 1 July 2009				
Cost	24,069	1,410	421	25,900
Accumulated amortisation and impairment	-	-	-	-
Net book amount	**24,069**	**1,410**	**421**	**25,900**
Year ending 30 June 2010				
Opening net book amount	24,069	1,410	421	25,900
Additions*	8,856	799	957	10,612
Closing net book amount	**32,925**	**2,209**	**1,378**	**36,512**
At 30 June 2010				
Cost	32,925	2,209	1,378	36,512
Accumulated amortisation and impairment	-	(59)	(25)	(84)
Net book amount	**32,925**	**2,150**	**1,353**	**36,428**

*See Note 15 for additions to Goodwill.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 12 Trade And Other Payables

	Consolidated	
	2010 $ '000	2009 $ '000
Unsecured liabilities		
Trade creditors	19,778	14,347
Other creditors and accrued expenses	6,770	4,255
Trade instruments	7,389	7,534
Total current trade and other payables	**33,937**	**26,136**

As at 30 June 2010 trade and other payables for the Group included trade instruments by which the Group received cash in lieu of collections of trade receivables.

Note 13 Borrowings

	Consolidated	
	2010 $ '000	2009 $ '000
Current		
Secured liabilities		
Commercial bills	3,546	2,137
Other loans	269	179
Total current borrowings	**3,815**	**2,316**
Non-current		
Secured liabilities		
Commercial bills	10,413	14,217
Loan facilities	530	-
Total non-current borrowings	**10,943**	**14,217**

(a) Commercial Bills and Loan Facilities

The loan facilities are repayable in installments per quarter and expire as follows: $1.6 million in August 2011, $8.4 million in October 2012 and $4.0 million in June 2013. The interest rate on facilities of $8.4 million is fixed at 9.8% until October 2012 and the interest rate on facilities of $5.6 million is at a floating rate on 90 day bank bills and a facility fee based on the facility limit. The commercial bills are subject to certain financial covenants, none of which have been breached at 30 June 2010. The loan facility is repayable monthly and expires in April 2012. The interest on the facilities of $0.8 million is variable.

(b) Security Disclosures

The loan facilities are repayable in installments per quarter and expire as follows: $1.6 million in August 2011, $8.4 million in October 2012 and $4.0 million in June 2013. The interest rate on facilities of $8.4 million is fixed at 9.8% until October 2012 and the interest rate on facilities of $5.6 million is at a floating rate on 90 day bank bills and a facility fee based on the facility limit. The commercial bills are subject to certain financial covenants, none of which have been breached at 30 June 2010. The loan facility is repayable monthly and expires in April 2012. The interest on the facilities of $0.8 million is variable. The borrowings of Gold Mist Health Pty Limited are secured by a registered mortgage over the assets of Gold Mist Health Pty Limited.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 14 Business Combination

a) Summary of Acquisitions

The Group has acquired business assets as follows:

Healthy Life Moonee Ponds

In January 2010 Healthzone Ltd acquired the Healthy Life Moonee Ponds business. Healthy Life Moonee Ponds is a franchisee of the Group operating a health food store. The purchase was satisfied by a cash payment of $38 thousand. The net identifiable assets acquired in the business were valued at $0.

	$ '000
Purchase consideration	38
Net identifiable assets acquired at fair value	-
Intangible assets on consolidation	**38**

The intangible asset is attributable to the projected profitability of the business of Healthy Life Moonee Ponds.

Gold Mist Health Pty Limited

On 30 June 2010 Healthzone Ltd acquired 100% of the issued share capital in Gold Mist Health Pty Limited. Gold Mist Health Pty Limited operates a chain of Healthy Life retail stores.

The net identifiable assets acquired in the business combination, and the intangible assets arising, are as follows:

	$ '000
Purchase consideration	1,000
Net identifiable assets acquired at fair value	(6,617)
Intangible assets on consolidation	**7,617**

The net identifiable assets acquired included $0.2 million cash and cash equivalents. The intangible asset is attributable to the projected profitability of the business of Gold Mist Health Pty Limited.

The net identifiable assets acquired in the business combination, and the intangible assets arising, are as follows:

	$ '000
Cash & Equivalents	238
Trade and other receivables	181
Stock on Hand	2,921
Property, plant & equipment	1,891
Intangibles	1,208
Deferred Tax Assets	1,059
Trade and other payables	(13,345)
Borrowings	(770)
Net identifiable assets acquired at fair value	**(6,617)**
Purchase consideration	1,000
Net assets acquired	(6,617)
Intangible assets on consolidation	**7,617**

The net identifiable assets include $1.2 million in goodwill. Total goodwill on consolidation is $7.4 million. The net cash effect of the purchase for year ending 30 June 2010 is an inflow of $0.2 million.

Healthzone Limited

Corporate Directory

30 June 2010

Directors

Peter Roach (Chairman)
Michael Ge Wu
Michael Jenkins (and Company Secretary)
Guy Robertson

Registered Office

316 Horsley Road, Milperra NSW 2214

Auditors

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Level 10, 1 Margaret Street
Sydney NSW 2000

Lawyers

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Level 27, 50 Bridge Street
Sydney NSW 2000

Share Registry

Registries Limited
28 Margaret Street
Sydney NSW 2000
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