FELLOW SHAREHOLDERS,

Fiscal 2002 was an outstanding year for your Company. By virtually every measurement, we materially exceeded the operating results of the prior years.

This past year saw improvements in our sales efforts through the introduction of new products for our customers and our expansion into international markets. Our laboratory facilities, which provide product development, have been instrumental in our ability to formulate these new products. Our overseas sales have thus far been encouraging and we are actively pursuing this business.

Fourth quarter revenues increased 23% to $6,807,389 from $5,545,517 for the same period a year ago. Net income for the quarter was $222,334 or $.03 per share on 7,114,970 shares outstanding as compared to a net loss of $(188,380) or $(.02) per share on 5,963,956 shares outstanding for the comparable quarter of last year.

Revenues increased 54% to $23,546,630 from $15,293,090 for the year ended June 30, 2002. Net income for the year ended June 30, 2002 was $1,393,045 or $.20 per share on 7,114,970 shares outstanding compared to a net loss of $(1,449,903) or $(.24) per share on 5,963,956 shares outstanding for the year ended June 30, 2001. Included in net income for the year ended June 30, 2002 was approximately $800,000 (net of taxes) attributable to the settlement of a class action law suit.

We enter fiscal 2003 in a strong financial condition. The Company has a working capital ratio of more than 3:1 and has no external debt. We have upgraded and expanded our manufacturing facilities to further increase our capacity and profitability. We are well positioned for future growth in Fiscal 2003 and beyond.

We are grateful to our shareholders, board of directors, suppliers and employees for their continued support.

Respectfully,

Seymour Flug
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the historical financial statements of the Company and notes thereto.

RESULTS OF OPERATIONS

YEAR ENDED JUNE 30, 2002 COMPARED TO THE YEAR ENDED JUNE 30, 2001

The Company's net income for the year ended June 30, 2002 was $1,393,045 as compared to the net loss of $(1,449,903) for the year ended June 30, 2001. This increase in net income of approximately $3,000,000 is primarily the result of a $3,000,000 increase in operating income resulting from a corresponding increase in gross profit of approximately $3,200,000, an increase in other income of approximately $1,300,000 due to the settlement of a Class Action Lawsuit and an increase in Federal and state income taxes of approximately $1,500,000.

Sales for the years ended June 30, 2002 and 2001 were $23,546,630 and $15,293,090, respectively, an increase of approximately 54%. For the year ending June 30, 2002 the Company had sales to one customer, who accounted for 43% of net sales in 2002 and 28% in 2001. The loss of this customer would have an adverse affect on the Company's operations.

Retail and mail order sales for the year ended June 30, 2002 totaled $173,065 as compared to $447,701 for the year ended June 30, 2001, a decrease of 61%. The Company has been experiencing a decline in retail mail order sales due to increased competition. The Company closed its retail store on March 2, 2001.

Sales under the Roche Vitamins, Inc. distribution agreement were $2,455,623 for the year ended June 30, 2002 as compared to $2,264,256 for the year ended June 30, 2001, an increase of 8%.

On July 1, 2000 the Company began offering solid dosage product development and technical services through its subsidiary, Integrated Health Ideas, Inc. Consulting revenues for the year ended June 30, 2002 totaled $448,361 as compared to $458,757 for the year ended June 30, 2001, a decrease of $10,396 or 2%.

On August 31, 2000 the Company began the distribution and sale of fine chemicals through a new subsidiary, IHT Health Products, Inc. Sales for the year ended June 30, 2002 totaled $3,678,382 as compared to sales for the ten months ended June 30, 2001 of $3,765,490.

Cost of Sales increased to $18,842,688 in 2002 as compared to $13,820,829 for 2001. Cost of sales decreased as a percentage of sales to 80% as compared to 90% for 2001. The decrease in cost of sales of 10% is due to greater manufacturing efficiencies due to the 54% increase in sales. The company's sales volume has increased to cover its fixed overhead.

Selling and administrative expenses for the year ending June 30, 2002 were $3,905,893 versus $3,758,957 for the same period a year ago. The increase of $146,936 was primarily attributable to a decrease in advertising of approximately $71,000, an increase in commission and royalty expense of approximately $88,000, an increase in freight out of approximately $34,000, an increase in bad debt expenses of approximately $41,000, a decrease in officers salaries of approximately $108,000, an increase in office salaries of approximately $185,000, an increase in office expenses of approximately $60,000, a decrease in professional fees of approximately $115,000, a decrease in public relations fees of approximately $50,000 and an increase in auto, entertainment and lodging of approximately $23,000.

Other income (expense) was $1,486,422 for the year ended June 30, 2002 as compared to $189,328 for the same period a year ago. This increase in other income of approximately $1,300,000 is primarily the result of the proceeds received of $1,157,960 from the settlement of a Class Action Lawsuit for the year ended June 30, 2002 and the increase in administrative fee income of approximately $130,000.

YEAR ENDED JUNE 30, 2001 COMPARED TO THE YEAR ENDED JUNE 30, 2000

The Company's net loss for the year ended June 30, 2001 was $(1,449,903) as compared to the net income of $3,143,695 for the year ended June 30, 2000. This decrease in net income of approximately $4,600,000 is primarily the result of a $300,000 decrease in operating income resulting from an increase in gross profit of approximately $185,000 and an increase in selling and administrative expenses of approximately $485,000, a decrease in other income of approximately $6,100,000 due to the settlement of a Class Action Lawsuit and a decrease in Federal and State income taxes of approximately $1,500,000.

Sales for the years ended June 30, 2001 and 2000 were $15,293,090 and $17,974,885, respectively, a decrease of $2,681,795 or 15%. For the year ending June 30, 2001 the Company had sales to one customer who accounted for 28% of net sales in 2001 and 51% of net sales in 2000. The loss of this customer would have an adverse affect on the Company's operations.

Retail and mail order sales for the year ended June 30, 2001 totaled $447,701 as compared to $679,612 for the year ended June 30, 2000, a decrease of 34%. The Company has been experiencing a decline in retail mail order sales due to increased competition. The Company closed its retail store on March 2, 2001.

Sales under the Roche Vitamins, Inc. distribution agreement were $2,264,256 as compared to $2,689,575 for the year ended June 30, 2000, a decrease of 16%.

On July 1, 2000 the Company began offering solid dosage product development and technical services through its subsidiary, Integrated Health Ideas, Inc. Consulting revenues for the year ended June 30, 2001 totaled $458,757.

On August 31, 2000 the Company began the distribution and sale of fine chemicals through a new subsidiary, IHT Health Products, Inc. Sales for the ten months ended June 30, 2001 totaled $3,765,490.

Cost of Sales decreased to $13,820,829 in 2001 as compared to $16,687,844 for 2000. Cost of sales decreased as a percentage of sales to 90% as compared to 93% for 2000. The decrease in cost of sales is due to greater manufacturing efficiencies.

Selling and administrative expenses for the year ending June 30, 2001 were $3,758,957 versus $3,276,435 for the same period a year ago. The increase of $482,522 was primarily attributable to a decrease in advertising of approximately $120,000, an increase in freight out of approximately $42,000, a decrease in bad debt expenses of approximately $130,000, a decrease in officers salaries of approximately $70,000, an increase in office salaries of approximately $350,000 due to the commencement of the IHT Health Products, Inc. distribution business, a decrease in consulting fees of approximately $175,000, an increase in insurance expense of approximately $45,000, an increase in depreciation expense of approximately $43,000, an increase in professional fees of approximately $70,000, an increase in public relations fees of approximately $70,000 and an increase in auto, entertainment and lodging of approximately $198,000.

Other income (expense) was $189,328 for the year ended June 30, 2001 as compared to $6,047,145 for the same period a year ago. This decrease in other income of approximately $6,000,000 is primarily the result of the proceeds received of $6,143,849 from the settlement of a Class Action Lawsuit against three bulk vitamin suppliers for the year ended June 30, 2000.

Liquidity and Capital Resources

At June 30, 2002 the Company's working capital was $4,899,564 an increase of $1,211,748 over working capital at June 30, 2001. Cash and cash equivalents were $2,063,323 at June 30, 2002 an increase of $1,687,739 from June 30, 2001. The Company generated $2,771,776 and utilized $1,517,415 for operations for the years ended June 30, 2002 and 2001, respectively. The primary reasons for the increase in cash generated from operations are net income of approximately $1,400,000, an increase in accounts receivable of approximately $139,000, a decrease in inventory of approximately $890,000, a decrease in refundable Federal Income Taxes of approximately $625,000 and a decrease in accounts payable of approximately $540,000. The Company believes that the anticipated sales for next year will meet cash needs for operations.

The Company utilized $354,344 and $59,066 in investing activities for the years ended June 30, 2002 and 2001, respectively. The Company utilized $729,693 and generated $129,056 from financing activities for the years ended June 30, 2002 and 2001, respectively.

The Company's total annual commitments at June 30, 2002 for long term non-cancelable leases of $4,327,344 consists of obligations under operating leases for facilities and lease agreements for the rental of warehouse equipment, office equipment and automobiles.

The Company has a $1,000,000 revolving line of credit agreement which bears interest at 4% above the prime interest rate and expires on December 31, 2003. At June 30, 2002 the balance due under the line was $3,568.

New Accounting Pronouncement

In July 2001, FAS No. 141, "Business Combinations" ("FAS 141") and FAS No. 142 "Goodwill and Other Intangible Assets" ("FAS 142") were issued. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must be recognized and reported apart from goodwill. FAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment, at least annually, in accordance with the provisions of FAS 142. FAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment in accordance with FAS No. 121, "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed of". The provisions of FAS 141 are effective immediately, except with regard to business combinations prior to July 1, 2001. FAS 142 will be effective as of July 1, 2002. Goodwill and other intangible assets acquired in business combinations completed before July 1, 2001, will continue to be amortized prior to the adoption of FAS 142. The Company does not anticipate that this statement will have any impact on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of." SFAS No.144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount of fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not anticipate that this statement will have a material impact on its financial position and results of operations.

Impact of Inflation

The Company does not believe that inflation has significantly affected its results of operations.

INTEGRATED HEALTH TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2002

ASSETS:	
Current Assets:	
Cash and Cash Equivalents	$ 2,063,323
Accounts Receivable – Net	2,272,425
Deferred Income Taxes	52,000
Inventories	2,705,661
Due From NuCycle Therapy, Inc. – Related Party	100,282
Prepaid Expenses and Other Current Assets	117,832
Total Current Assets	7,311,523
Property and Equipment – Net	2,307,527
Other Assets:	
Deferred Tax Asset	112,000
Security Deposits and Other Assets	275,785
Total Other Assets	387,785
Total Assets	$10,006,835
LIABILITIES AND STOCKHOLDERS' EQUITY:	
Current Liabilities:	
Accounts Payable	$ 1,632,112
Notes Payable	3,568
Customer Advances	550,971
Accrued Expenses and Other Current Liabilities	105,244
Federal and State Income Taxes Payable	106,262
Capital Lease Obligation	13,802
Total Current Liabilities	2,411,959
Non-Current Liabilities:	
Capital Lease Obligation	10,101
Total Non-Current Liabilities	10,101
Commitments and Contingencies [11]	
Stockholders' Equity:	
Preferred Stock – Authorized 1,000,000 Shares, $.002 Par Value, No Shares Issued	—
Common Stock – Authorized 25,000,000 Shares, $.002 Par Value, 6,228,720 Shares Issued and Outstanding	12,457
Additional Paid-in-Capital	6,113,582
Retained Earnings	1,487,567
	7,613,606
Less, Treasury Stock at cost, 25,800 common shares	(28,831)
Total Stockholders' Equity	7,584,775
Total Liabilities and Stockholders' Equity	$10,006,835

See accompanying notes to consolidated financial statements.

INTEGRATED HEALTH TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended June 30,	2002	2001
Sales	$ 23,546,630	$ 15,293,090
Cost of Sales	18,842,688	13,820,829
Gross Profit	4,703,942	1,472,261
Selling and Administrative Expenses	3,905,893	3,758,957
Operating Income (Loss)	798,049	(2,286,696)
Other Income (Expense):		
(Loss) on Sale of Equipment	—	(12,817)
Administrative Fee Income	302,804	170,521
Administrative Fee Income-Related Party	—	50,000
Partnership Income	—	8,765
Consulting Fee Income	48,000	20,000
Gain on Settlement of Lawsuit	1,157,960	24,725
Interest Expense	(45,109)	(91,110)
Interest and Investment Income	22,767	19,244
Total Other Income (Expense)	1,486,422	189,328
Income (Loss) Before Income Taxes	2,284,471	(2,097,368)
Federal and State Income Tax Expense (Benefit)	891,426	(647,465)
Net Income (Loss)	$ 1,393,045	$ (1,449,903)
Net Income (Loss) Per Common Share:		
Basic	$ 0.22	$ (0.24)
Diluted	$ 0.20	$ (0.24)
Average Common Shares Outstanding	6,228,720	5,963,956
Warrants and Options, which are anti-dilutive	886,250	—
Average Common Shares Outstanding-assuming dilution	7,114,970	5,963,956

See accompanying notes to consolidated financial statements.

INTEGRATED HEALTH TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended June 30, 2002 and 2001	Common Stock		Preferred Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Par Value				Shares	Cost	
Balance- July 1, 2000	5,178,300	$10,357	$—	$ 4,847,405	$1,544,425	25,800	$(28,831)	$6,373,356
Common Stock Issued for Purchase of Land and Building	1,050,420	2,100	—	1,247,900	—	—	—	1,250,000
Issuance of Stock Options	—	—	—	18,277	—	—	—	18,277
Net (Loss)	—	—	—	—	(1,449,903)	—	—	(1,449,903)
Balance- June 30, 2001	6,228,720	12,457	—	6,113,582	94,522	25,800	(28,831)	6,191,730
Net Income	—	—	—	—	1,393,045	—	—	1,393,045
Balance- June 30, 2002	6,228,720	$12,457	$—	$ 6,113,582	$1,487,567	25,800	$(28,831)	$7,584,775

See accompanying notes to consolidated financial statements.

INTEGRATED HEALTH TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,	2002	2001
Operating Activities:		
Net Income (Loss)	$ 1,393,045	$ (1,449,903)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By (Used for) Operating Activities:		
Depreciation and Amortization	361,326	353,875
Deferred Income Taxes	150,000	(34,000)
Loss on Sale of Fixed Assets	—	12,817
Consulting Expense-Stock Options	—	18,277
Bad Debt Expense	81,159	40,428
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(139,310)	(832,574)
Inventories	893,184	(362,167)
Refundable Federal Income Taxes	625,000	(408,648)
Due From NuCycle Therapy, Inc. - Related Party	(62,803)	—
Prepaid Expenses and Other Current Assets	54,612	(62,304)
Security Deposits and Other Assets	(158,564)	(35,593)
(Decrease) Increase in:		
Accounts Payable	(544,040)	819,518
Federal and State Income Taxes Payable	106,262	—
Accrued Expenses and Other Liabilities	11,905	422,859
Total Adjustments	1,378,731	(67,512)
Net Cash – Operating Activities	2,771,776	(1,517,415)
Investing Activities:		
Proceeds From Sale of Fixed Assets	—	9,500
Loans to Stockholders	(68,746)	75,891
Repayment of Note Receivable	173,993	—
Note Receivable	(141,050)	(35,000)
Purchase of Property and Equipment	(318,541)	(109,457)
Net Cash – Investing Activities	(354,344)	(59,066)
Financing Activities:		
Proceeds from Notes Payable	3,975,245	2,564,471
Repayment of Notes Payable	(4,704,938)	(2,435,415)
Net Cash – Financing Activities	(729,693)	129,056
Net Increase/(Decrease) in Cash and Cash Equivalents	1,687,739	(1,447,425)
Cash and Cash Equivalents – Beginning of Year	375,584	1,823,009
Cash and Cash Equivalents – End of Year	$ 2,063,323	$ 375,584
Supplemental Schedule of Investing and Financing Activities:		
Cash paid during the years for:		
Interest	$ 45,109	$ 91,110
Income Taxes	645,425	15,374

See accompanying notes to consolidated financial statements.

(1) BUSINESS

Integrated Health Technologies, Inc. [the "Company"] is engaged primarily in the manufacturing, marketing and sales of vitamins, nutritional supplements and herbal products. Its customers are located primarily throughout the United States. The Company considers all subsidiaries as one segment of business.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments

Generally accepted accounting principles require disclosing the fair value of financial instruments to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

In assessing the fair value of financial instruments, the Company uses a variety of methods and assumptions, which are based on estimates of market conditions and risks existing at the time. For certain instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, it was estimated that the carrying amount approximated fair value because of the short maturities of these instruments. All debt is based on current rates at which the Company could borrow funds with similar remaining maturities and approximates fair value.

Cash and Cash Equivalents

Cash equivalents are comprised of certain highly liquid investments with a maturity of three months or less when purchased.

Inventories

Inventory is valued by the first-in, first-out method, at the lower of cost or market.

Depreciation

The Company follows the general policy of depreciating the cost of property and equipment over the following estimated useful lives:

Building	15 Years
Leasehold Improvements	15 Years
Machinery and Equipment	7 Years
Machinery and Equipment Under Capital Leases	7 Years
Transportation Equipment	5 Years

Machinery and equipment are depreciated using accelerated methods while leasehold improvements are amortized on a straight-line basis. Depreciation expense was $361,326 and $353,875 for the years ended June 30, 2002 and 2001, respectively. Amortization of equipment under capital leases is included with depreciation expense.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue upon shipment of the product. All returns and allowances are estimated and recorded on a timely basis.

Advertising

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was $94,688 and $165,633 for the years ended June 30, 2002 and 2001, respectively.

Stock-Based Compensation

Statement of Financial Accounting Standards 123 "Accounting for Stock Based Compensation" ("SFAS 123") allows a Company to adopt a fair value based method of accounting for its stock-based compensation plans or continue to follow the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". The Company accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion "APB") No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Under APB No. 25, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

(3) INVENTORIES

Raw Materials	$1,075,093
Work-in-Process	828,653
Finished Goods	801,915
TOTAL	$2,705,661

(4) PROPERTY AND EQUIPMENT

Land and Building	$1,250,000
Leasehold Improvements	1,144,054
Machinery and Equipment	2,741,511
Machinery and Equipment Under Capital Leases	156,561
Transportation Equipment	32,152
Total	5,324,278
Less: Accumulated Depreciation	3,016,751
TOTAL	$2,307,527

(5) NOTES PAYABLE

Merchant Financial Corporation (a)	3,568
Less: Current Portion	3,568
NON-CURRENT PORTION	$ —

(a) Under the terms of a revolving credit note which expires on December 21, 2003, the Company may borrow up to $1,000,000 at 4% above the prime lending rate. The loan is collateralized by the inventory, receivables and equipment of Integrated Health Technologies, Inc. and its operating subsidiaries. At June 30, 2002 the interest rate was 11%.

The loan agreement with Merchant Financial Corporation contains certain financial covenants relating to the maintenance of tangible net worth as defined. At June 30, 2002 the Company was in compliance with its tangible net worth covenant.

(6) CAPITAL LEASE

The Company acquired warehouse and office equipment under the provisions of two long-term leases. The leases expire in March 2003 and July 2003, respectively. The equipment under the capital leases as of June 30, 2002 has a cost of $47,016 and accumulated depreciation of $16,934 with a net book value of $30,082.

The future minimum lease payments under capital leases and the net present value of the future minimum lease payments at June 30, 2002 are as follows:

Total Total Minimum Lease Payments	$ 47,016
Amount Representing Interest	(23,113)
Present Value of Net Minimum Lease Payments	23,903
Current Portion	(13,802)
LONG-TERM CAPITAL LEASE OBLIGATION	$ 10,101

The following are maturities of long-term capital lease obligations:

June 30,	
2003	$13,802
2004	6,471
2005	3,630
TOTALS	$23,903

(7) INCOME TAXES

Deferred tax attributes resulting from differences between financial accounting amounts and tax bases of assets and liabilities at June 30, 2002 follow:

Current assets and liabilities	
Allowance for doubtful account	$ 12,000
Inventory overhead capitalization	40,000
Net current deferred tax asset (liability)	$ 52,000
Long-Term assets and liabilities	
Depreciation	$112,000

The provision for income taxes consists of the following:

	June 30, 2002	2001
Deferred tax (benefit)	$150,000	$ (34,000)
Current tax expense (benefit)	741,426	(613,465)
	$891,426	$(647,465)

The statutory income tax rate differs from the effective tax rate used in the financial statements as a result of the permanent differences, change in statutory tax rate and prior year net operating losses. A reconciliation of the statutory tax rate to the effective tax rate for the year ended June 30 is as follows:

	2002	2001
Computed (benefit) provision at the statutory tax	34%	(34)%
State tax rate	9	—
Other	(4)	3
Effective income tax rate	39%	(31)%

(8) PROFIT-SHARING PLAN

The Company maintains a profit-sharing plan, which qualifies under Section 401(k) of the Internal Revenue Code, covering all nonunion employees meeting age and service requirements. Contributions are determined by matching a percentage of employee contributions. The total expense for the years ended June 30, 2002 and 2001 was $77,138 and $59,631 respectively.

(9) SIGNIFICANT RISKS AND UNCERTAINTIES

(A) Concentrations of Credit Risk-Cash

Concentrations of Credit Risk-Cash – The Company maintains balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2002, the Company's uninsured cash balances totaled approximately $1,530,000.

(B) Concentrations of Credit Risk-Receivables

Concentrations of Credit Risk-Receivables- The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited. The Company does not require collateral in relation to its trade accounts receivable credit risk. The amount of the allowance for uncollectible accounts at June 30, 2002 is $29,460.

(10) MAJOR CUSTOMER

For the years ended June 30, 2002 and 2001 approximately 43% or $10,125,000 and 28% or $4,300,000 of revenues were derived from one customer. The loss of this customer would have an adverse affect on the Company's operations. In addition, for the years ended June 30, 2002 and 2001, an aggregate of approximately 14% and 32%, respectively, of revenues were derived from two other customers; no other customers accounted for more than 10% of consolidated sales for the years ended June 30, 2002 and 2001. Accounts receivable from these customers comprised approximately 56% and 31% of total accounts receivable at June 30, 2002 and 2001, respectively.

(11) COMMITMENTS AND CONTINGENCIES

(A) Leases

Related Party Leases – Certain manufacturing and office facilities were leased from Morristown Holding Company, Inc., (formerly Gerob Realty Partnership) whose owners are stockholders of the Company. The lease, which expired on December 31, 2000 provided for a minimum annual rental of $60,000, plus payment of all real estate taxes. Rent and real estate tax expense for the years ended June 30, 2002 and 2001 on this lease was approximately $-0- and $5,000, respectively.

Other warehouse and office facilities are leased from Vitamin Realty Associates, L.L.C., a limited liability company, which is 90% owned by the Company's chairman and principal stockholder and certain family members and 10% owned by the Company's Chief Financial Officer. The lease was effective on January 10, 1997 and provides for minimum annual rental of $346,000 through January 10, 2002 plus increases in real estate taxes and building operating expenses. Rent expense has been straight-lined over the life of the lease. At its option, the Company has the right to renew the lease for an additional five year period. On April 28, 2000 the lease was amended reducing the square footage and extending the lease to May 31, 2015 with annual rental of $323,559. Rent expense for the years ended June 30, 2002 and 2001 on this lease was approximately $460,000 and $455,000.

Other Lease Commitments – The Company leases warehouse equipment for a five year period providing for an annual rental of $23,114 and office equipment for a five year period providing for an annual rental of $8,365.

The Company leases automobiles under non-cancelable operating lease agreements, which expire through 2004.

The minimum rental commitment for long-term non-cancelable leases is as follows:

Year Ending June 30,	Lease Commitment	Related Party Commitment	Lease Total
2003	$ 84,250	$ 323,559	$ 407,809
2004	51,582	323,559	375,141
2005	19,063	323,559	342,622
2006	15,194	323,559	338,753
2007	4,914	323,559	328,473
Thereafter	—	2,534,546	2,534,546
Total	$175,003	$4,152,341	$4,327,344

Total rent expense, including real estate taxes and maintenance charges, was approximately $530,000 and $523,000 for the years ended June 30, 2002 and 2001, respectively. Rent expense is stated net of sublease income of approximately $2,000 and $3,000 for the years ended June 30, 2002 and 2001, respectively.

(12) DEVELOPMENT AND SUPPLY AGREEMENT

On April 9, 1998, the Company signed a development and supply agreement with Herbalife International of America, Inc. ("Herbalife") whereby the Company will develop, manufacture and supply certain nutritional products to Herbalife through December 31, 2002.

(13) RELATED PARTY TRANSACTIONS

During the year ended June 30, 1997, the Company entered into a consulting agreement with the brother of the Company's Chairman of the Board on a month to month basis for $1,100 per month. The total consulting expense recorded per this verbal agreement for the years ended June 30, 2002 and 2001 was $13,200 for each year.

(14) EQUITY TRANSACTION

(A) Stock Option Plan

The Company has adopted a stock option plan for the granting of options to employees, officers, directors and consultants of the Company to purchase up to 7,000,000 shares of common stock, at the discretion of the Board of Directors. Stock option grants are limited to a total of 3,500,000 shares for "incentive stock options" and 3,500,000 shares for "non-statutory options" and may not be priced less than the fair market value of the Company's common stock at the date of grant. Options granted are generally for ten year periods, except that options granted to a 10% stockholder [as defined] are limited to five year terms.

On October 19, 2001 the Company granted 236,250 incentive stock options for a term of ten years at an exercise price equal to the market price ($.075) on the date of grant and 130,000 incentive stock options at an exercise price equal to 110% of the market price ($.0825).

The Company also granted 493,750 non-statutory stock options to officers, directors and members of its Scientific Advisory Board at the exercise price of $.075 and 270,000 non-statutory stock options at $.0825.

Pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee's stock options under the fair-value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for June 30:

	2002	2001
Risk-free interest rate	3.7%	5.5%
Expected volatility	95.3%	137.3%
Dividend yield	—	—
Expected life	7.5 years	8.0 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair-value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option's life. The Company's pro forma information is as follows:

	2002	2001
Pro forma net income, (loss)	$1,350,670	$ (1,965,129)
Pro forma net income, (loss) per share		
Basic	$ .18	$ (.33)
Diluted	$ .16	$ (.33)

The Company recorded compensation expense for stock options issued in the amount of $0 and $18,000 for the years ended June 30, 2002 and 2001.

A summary of the Company's stock option activity, and related information for the years ended June 30, follows:

	Options	Weighted Average Exercise Price	Number of Exercisable	Weighted Average Exercise Price
Outstanding June 30, 2000	2,515,175	1.36	925,175	2.82
Granted	1,319,000	0.88		
Exercised	—	—		
Terminated	(20,000)	0.50		
Outstanding June 30, 2001	3,814,175	1.20	2,495,175	1.36
Granted	1,130,000	0.88		
Exercised	—	—		
Terminated	(98,974)	0.50		
Outstanding June 30, 2002	4,845,201	0.92	3,715,201	1.18

Weighted-average fair value of options granted during the year	2002	2001
Where exercise price equals stock price	—	0.81
Where exercise price exceeds stock price	1.28	1.03
Where stock price exceeds exercise price	.78	—

Following is a summary of the status of stock options outstanding at June 30, 2002:

	Outstanding Options			Exercisable Options	
Exercise Price Range	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ .05 – .08	1,130,000	8.7	0.08	0	0
$ .50 – .55	1,560,000	6.8	0.52	1,560,000	0.52
$ .75 – .83	957,000	7.9	0.78	957,000	0.78
$1.00 – 1.10	275,000	6.6	1.03	275,000	1.03
$1.50 – 1.65	320,604	5.4	1.53	320,604	1.53
$1.75	25,000	3.0	1.75	25,000	1.75
$3.50 – 3.85	577,597	3.9	3.48	577,597	3.48
$0.05 - 3.85	4,845,201	8.3	1.03	3,715,201	1.18

There were no warrants exercised for the fiscal years ended June 30, 2002 and 2001.

(B) Consultant Agreement/Stock Options

Consultant Agreement/Stock Options- In connection with a consulting agreement dated March 20, 1998, the Company has issued three options for 45,000 shares of common stock. Each option is exercisable for 15,000 shares at exercise price of $1.125, $2.50 and $4.00, respectively. These options are exercisable until five years following the date of this agreement.

(C) Related Party Promissory Note

On March 12, 1998, the Company negotiated a three year promissory note for $750,000 with its Chairman and then President. The note was repaid in January 2000. As consideration for the loan, the Corporation issued a Class C Warrant to purchase 150,000 shares of common stock at the aggregate purchase price of $1.75 per share. The warrant is exercisable for a four year period commencing one year after the issuance of the note and expires on March 12, 2003.

(D) Tender Offer

On March 5, 2001 the Company entered into an Agreement and plan of Reorganization with NuCycle Therapy, Inc. ("NuCycle") whereby Chem Acquisition Corp., (a wholly-owned subsidiary) will acquire NuCycle Therapy, Inc. and NuCycle Therapy, Inc. will become a wholly-owned subsidiary of the Company. On May 21, 2001 the original agreement was amended and restated to provide that Chem Acquisition Corp. will make a tender offer for all of the outstanding common stock of NuCycle Therapy, Inc. and all outstanding warrants. The total consideration offered will be $400,000. The tender offer was accepted on July 11, 2001 and resulted in Chem Acquisition Corp. acquiring 2,298,309 shares of NuCycle common stock which represented approximately 72% of NuCycle. On August 29, 2001 NuCycle Therapy, Inc. held a special meeting of stockholders and approved the Amended and Restated Agreement and Plan of Reorganization.

The Company, in September 2001, then entered into a Licensing Agreement with NuCycle whereby the Company obtained the exclusive license to manufacture, market and sell vitamin and mineral supplements using NuCycle's technology.

In September 2001 the Company then sold NuCycle to certain investors for the same $400,000 to recoup the Company's investment. Certain of the investors are also shareholders and officers of the Company. NuCycle desired to pursue the development of drugs and pharmaceuticals with its technology and the Company did not want to fund such development.

As of June 30, 2002, the Company had advanced $100,282 to NuCycle Therapy, Inc. for operating expenses.

(15) NEW ACCOUNTING PRONOUNCEMENT

In July 2001, FAS No. 141, "Business Combinations" (FAS 141") and FAS No. 142 "Goodwill and Other Intangible Assets" (FAS 142") were issued. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. FAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment, at least annually, in accordance with the provisions of FAS 142. FAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment in accordance with FAS No. 121, "Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed of". The provisions of FAS 141 are effective immediately, except with regard to business combinations prior to July 1, 2001. FAS 142 will be effective as of July 1, 2002. Goodwill and other intangible assets acquired in business combinations completed before July 1, 2001, will continue to be amortized prior to the adoption of FAS 142. The Company does not anticipate that this statement will have a material impact on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount of fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not anticipate that this statement will have a material impact on its financial position and results of operations.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Effective January 5, 2001 the Company changed its name to "Integrated Health Technologies, Inc." and began trading using the NASDAQ symbol IHTC for its common stock and the symbol IHTCW for its redeemable warrants.

The Class A Redeemable Common Stock Purchase Warrants expired on October 28, 2001 and were no longer traded on the Electronic Bulletin Board.

Set forth below are the high and low closing prices of the Common Stock and the Class A Redeemable Warrant as reported on the Nasdaq National Market for the period July 1, 2000 through April 25, 2001 and on the Electronic Bulletin Board for the period April 25, 2001 through June 30, 2002:

	HIGH	LOW
COMMON STOCK (CXIL/IHTC)		
FISCAL YEAR ENDED JUNE 30, 2001		
First Quarter	$2.4063	$0.8750
Second Quarter	$1.9375	$0.4375
Third Quarter	$1.0625	$0.5000
Fourth Quarter	$0.8125	$0.2188
FISCAL YEAR ENDED JUNE 30, 2002		
First Quarter	$0.2500	$0.1100
Second Quarter	$0.3500	$0.0700
Third Quarter	$0.8000	$0.2400
Fourth Quarter	$0.6000	$0.3200
CLASS A REDEEMABLE WARRANTS (CXILW/IHTCW)		
FISCAL YEAR ENDED JUNE 30, 2001		
First Quarter	$0.6562	$0.1875
Second Quarter	$0.3438	$0.0312
Third Quarter	$0.1875	$0.0625
Fourth Quarter	$0.0938	$0.0100
FISCAL YEAR ENDED JUNE 30, 2002		
First Quarter	$0.0100	$0.0100
Second Quarter	$0.0100	$0.0100

As of June 30, there were approximately 600 holders of record of the Company's Common Stock.

The Company has not declared or paid a dividend with respect to its Common Stock nor does the Company anticipate paying dividends in the foreseeable future.

Integrated Health Technologies, Inc.

Independent Auditor's Report

To the Stockholders and Board of Directors of

Integrated Health Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Integrated Health Technologies, Inc. and Subsidiaries (formerly Chem International, Inc.) as of June 30, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended June 30, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated Health Technologies, Inc. and its subsidiaries as of June 30, 2002, and the consolidated results of their operations and their cash flows for the years ended June 30, 2002 and 2001 in conformity with accounting principles generally accepted in the United States.

Amper, Politziner & Mattia, P.A.

Edison, New Jersey

August 22, 2002