



Vita Group Limited

ABN 62 113 178 519

Annual Financial Report

for the year ended 30 June 2011

VITA GROUP LIMITED – ANNUAL REPORT

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Corporate Information

ABN 62 113 178 519

This Annual Report for Vita Group Limited and its controlled entities (referred to hereafter as the group) is presented in the Australian Dollar, being the Group's functional and presentation currency.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 8 to 9.

Directors

Dick Simpson (Independent Chairperson)
David McMahon (Joint Chief Executive Officer)
Maxine Horne (Joint Chief Executive Officer)
Neil Osborne (Independent Non-Executive Director)
Melinda Snowden (Independent Non-Executive Director)
Diana Ryall AM (Independent Non-Executive Director)

Company Secretaries

Mark Anning
Christine Kelly (retired 8 April 2011)

Registered Office and Principal Place of Business

Vita Place, Level 3, 77 Hudson Road, Albion, Queensland, Australia
Telephone: +61 7 3624 6666
Facsimile: +61 7 3624 6999
Website: www.vitagroup.com.au

Share Registry

Computershare Investor Services Pty Limited
117 Victoria Street
WEST END Queensland 4101
Telephone: 1300 552 270
www.computershare.com.au

Australian Securities Exchange (ASX) Listing

Vita Group Limited shares are listed on the Australian Securities Exchange.
ASX Code: VTG

Solicitors

Minter Ellison Lawyers
Brisbane, Australia

Bankers

ANZ Bank Limited
Brisbane, Australia

Auditors

PricewaterhouseCoopers
Brisbane, Australia

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Directors' Report

Your Directors submit their report for the year ended 30 June 2011.

The Directors of the Company at any time during or since the end of the financial year are:

Dick Simpson (Independent Chairperson)
David McMahon (Joint Chief Executive Officer)
Maxine Horne (Joint Chief Executive Officer)
Neil Osborne (Independent Non-Executive Director)
Melinda Snowden (Independent Non-Executive Director) (resigned on 22 August 2011)
Diana Ryall AM (Independent Non-Executive Director)

The qualifications, experience, special responsibilities and directorships of listed companies of Directors are as follows:

Current Directors

Dick Simpson **Non-Executive Chairperson**

Dick brings considerable experience to the board. He has held roles as Chief Executive Officer in both the Telecommunications and Computing industries. He has also been Chairperson of CSL (Hong Kong's biggest mobile carrier), Telstra Clear and REACH.

Dick started his career in IT, spending 20 years with IBM and then Unisys, in Australia as well as the USA. He then joined Optus and subsequently Telstra, where he was Group Managing Director, Mobiles in Australia, before moving to head up Telstra's international operations in Hong Kong.

Dick became a Director of Vita Group in September 2005, and has served on the Remuneration & Nomination Committee, and the Audit, Compliance & Risk Committee. He is also a Director of Chevalier College in Bowral, New South Wales.

David McMahon **Joint Chief Executive Officer**

David is co-founder and Joint Chief Executive Officer of Vita Group. He is responsible for guiding the future strategic direction of the Company.

David has been instrumental in Vita Group's rapid growth since inception in January 1995. He has been involved in the mobile communications industry for over 20 years in the United Kingdom and Australia.

David was awarded the prestigious Young Entrepreneur of the Year Award (Northern Region) in recognition of his outstanding business strategy and management skills in 2001, and at the 2006 National Retail Awards received a Merit Award for Excellence for Individual Achievement.

Maxine Horne **Joint Chief Executive Officer**

Maxine is co-founder and Joint Chief Executive Officer of Vita Group. From a one store beginning in 1995 to a multi brand and multi channel publicly listed company with its two key partners, Telstra and Apple, being dominant players in their respective markets, Maxine has envisioned, guided and delivered each step of the company's transformation.

Prior to forming Vita Group, Maxine gained significant global telecommunications experience in sales, customer service, leadership and operations roles in the UK, Europe and Australia. On an individual level she has received the President's Award at the NSW ARA Awards for Excellence and was named QBR Business Woman of the Year, Retail in 2006.

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Directors' Report (continued)

DIRECTORS (continued)

Neil Osborne **Non-Executive Director**

Neil was formerly a partner with the world's largest consulting and technology services firm, Accenture. He has over 24 years experience in the retail industry and has held a variety of senior executive positions with Myer Grace Bros and Coles Myer Ltd in corporate and operating roles across finance, supply chain, strategic planning and merchandising, including the positions of Myer Chief Operating Executive (Chief Financial Officer and Supply Chain) and CML Group General Manager, Retail Services.

Neil became a Director of Vita Group in June 2007, and is Chairperson of the Audit, Compliance & Risk Committee, and a member of the Remuneration & Nomination Committee.

Melinda Snowden **Non-Executive Director**

Melinda is a Non-Executive Director of MLC Limited and a number of its associated boards, a Non-Executive Director of Kennards Self Storage Pty Ltd, a member of FINSIA's NSW Regional Council and a consultant to corporate advisory firm Grant Samuel. Melinda has over 15 years investment banking experience.

Prior to joining Grant Samuel, Melinda held corporate finance roles with Merrill Lynch and Goldman Sachs in Australia and New York and worked on numerous strategic advisory and financing assignments. She was also a solicitor with the corporate division of Freehills between 1991 and 1994.

Melinda's qualifications include Bachelor of Economics and Bachelor of Laws, Graduate Diploma in Applied Finance and Investment, GAICD, and Fellow of FINSIA.

Melinda became a Director of Vita Group in September 2008, and is a member of the Audit, Compliance & Risk Committee and the Remuneration & Nomination Committee.

Melinda's retirement as a Director was announced to the ASX on 22 June 2011 with effect from 22 August 2011.

Diana Ryall AM **Non-Executive Director**

Diana Ryall was Managing Director at Apple Computer Australia from 1997 to 2001. Diana stepped down from that position at the end of 2001 to expand her involvement in those areas in which she is passionate: inspiring leadership, supportive workplace cultures and the success of women.

Since leaving Apple, Diana founded the company "Xplore for Success" which offers services to organisations to support talented men and women to achieve personal success.

From 2005 to 2008, Diana led the Chief Executive Women's (CEW) Talent Development Program.

On January 26, 2010 Diana was awarded the Member of the Order of Australia (AM) for service to business through executive roles in the information technology industry, as a mentor to women, and to the community.

Diana became a Director of Vita Group in March 2010, is a member of the Audit, Compliance & Risk Committee and chairperson of the Remuneration & Nomination Committee.

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Directors' Report (continued)

DIRECTORS (continued)

Interests in the shares and options of the Company

As at the date of this report, the relevant interests of the Directors in the shares of Vita Group Limited were as set out in the table below. No Director held any options to acquire shares in the company.

Directors	Ordinary shares held at 30 June 2010	Ordinary shares purchased	Ordinary shares held at 30 June 2011
Dick Simpson	165,785	16,500	182,285
David McMahon and Maxine Horne (jointly)	64,269,403	-	64,269,403
David McMahon	1,000	-	1,000
Maxine Horne	1,000	-	1,000
Neil Osborne	158,342	33,000	191,342
Melinda Snowden	-	-	-
Diana Ryall	-	-	-

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director are shown in the table below.

As at the date of this report, the Company had two Committees of the Board, an Audit Compliance & Risk Committee, and a Remuneration & Nomination Committee.

The members of each committee during the year were:

Audit, Compliance & Risk Committee	Remuneration & Nomination Committee
Neil Osborne (c)	Neil Osborne
Melinda Snowden	Melinda Snowden
Diana Ryall	Diana Ryall (c)

Note (c) Designates the Chairperson of the Committee

Number of meetings held:	Vita Group Board		Audit, Compliance & Risk Committee		Remuneration & Nomination Committee	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
	14		4		2	
Dick Simpson	14	13				
David McMahon	14	14				
Maxine Horne	14	13				
Neil Osborne	14	14	4	4	2	2
Melinda Snowden	14	13	4	4	2	1
Diana Ryall	14	13	4	4	2	2

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Directors' Report (continued)

COMPANY SECRETARIES

The joint Company Secretaries at any time during or since the end of the financial year were:

Christine Kelly (retired 8 April 2011)
Mark Anning

The qualifications and experience of each Company Secretary are as follows:

Mark Anning **Group Company Secretary and Legal Counsel**

Mark was appointed Company Secretary and Legal Counsel on 10 November 2009.

Mark was admitted as a Solicitor of the Supreme Court of Queensland, and High Court in 1993, and spent 16 years in private practice with national law firms including almost 10 years with Allens Arthur Robinson, specialising in corporate and commercial law, dispute resolution and commercial risk management.

Mark holds Bachelor of Commerce and Bachelor of Law (Hons) degrees from the University of Queensland and also holds a Graduate Diploma in Applied Corporate Governance.

He is a member and Deputy Chairperson of the Queensland State Council of Chartered Secretaries Australia (the Australian member body of ICOSA).

Mark's prior role was as Group Company Secretary of Queensland Gas Company Limited (ASX: QGC).

Secretaries who resigned throughout the year

Christine Kelly **Chief Financial Officer and Company Secretary**

Christine joined Vita Group in November 2007 as Group Financial Controller and was appointed Chief Financial Officer and Company Secretary in April 2009. She has a Bachelor of Commerce degree and a Graduate Certificate of Management and is a Member of the Australian Institute of Company Directors.

Christine Kelly retired on 8 April 2011.

DIVIDENDS

	Cents	\$'000
Interim for the year (2010: nil)		
• on ordinary shares	2.0	<u>2,850</u>

Since the end of the financial year, the directors have approved the payment of a final ordinary dividend of \$1,588,773 (1.1 cents per fully paid share) to be paid in October, 2011 (2010: nil).

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Directors' Report (continued)

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were retailing of mobile communications equipment and associated products and services through Fone Zone, One Zero and recently expanded Telstra stores, and Apple computers and other Apple products and services through Next Byte stores in Australia.

OPERATING AND FINANCIAL REVIEW

Vita Group experienced significant growth in revenues in the financial period, up 32.7% on last year. In the Telecommunications division, revenues grew 48.4%, primarily driven by strong like-for-like performance, the continued rollout of new stores and business centres, and an improvement in the relative competitiveness of Telstra's product offering. Next Byte revenues grew 10.9%, despite a smaller physical store footprint relative to prior year, with Apple products performing well in the Australian market.

In the prior year, Telstra committed to pay \$23.6 million to the Group upon a change in the commission structure from a deferred to an upfront arrangement. \$13.9 million of this was brought to account in the last financial year and \$9.7million in the current year. Despite the reduction in trailing commissions, the significant investment in new store openings, and the time taken to bring stores to maturity, EBITDA for the Telecoms division rose by 9.6% to \$19.2 million. EBITDA is stated after the allocation of group overheads to each division.

The Computing business made an EBITDA loss in the year of \$0.7 million after allocation of group overheads. Whilst revenues rose, earnings suffered as a consequence of softer margins and adverse products and services mix. The potential in the business however remains significant and progress has been made to address margin weakness, target productivity improvements and add margin accretive products and services.

Group earnings were broadly in line with prior year. EBITDA was \$18.5 million, \$0.6 million lower than prior year reflecting lower trailing commissions. EBITDA, excluding trailing commissions grew by 68%. Profit before tax was \$10.0 million against \$10.8 million in the prior year, reflecting higher financing and depreciation costs relating to funding arrangements and capital spend associated with the store rollout program. Profit after tax for the year was \$6.8 million.

During the year, the group successfully arranged banking facilities to fund the roll out of the new Telstra and Next Byte stores.

The board of directors have approved a total dividend for the year of 3.1 cents per share, representing a payout ratio of 65% of profit after tax. The interim dividend paid in the year was 2.0 cents per share. No dividend was paid in the prior year.

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Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Shareholder Returns

Earnings per share and other financial measures of the return to shareholders are included in the table below

	2011	2010
Basic earnings per share (cents)	4.80	5.43
Return on equity	13.2%	16.2%
Net debt/(Net debt plus total equity)	12.2%	4.8%

The share price at 30 June 2011 was \$0.22 (2010: \$0.22).

Review of Financial Condition

The consolidated cash flow statement shows an operating cash flow of \$18.9 million, compared to the previous year of \$20.6 million. Cash at 30 June 2011 was \$7.9 million, compared to \$12.5 million at the end of the previous year.

Profile of Debts

	2011 \$'000	2010 \$'000
Current		
Obligations under finance leases and hire purchase contracts	3,245	2,362
Fully Drawn Advance	3,118	-
Commercial bills	-	7,692
Non-current		
Obligations under finance leases and hire purchase contracts	8,744	4,838
	<hr/>	<hr/>
	15,107	14,892

The Group sources the majority of its funds from operations and from facilities provided by the ANZ Bank. The board considers the current level of net debt / (net debt plus equity) in the Group of 12.2% to be within acceptable limits.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group during the financial year not otherwise disclosed in this report or the consolidated financial statements.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no other matters or circumstances not otherwise dealt with in this report that will significantly affect the operation of the Group, the results of those operations or the state of affairs of the Group or subsequent financial years.

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Directors' Report (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Vita Group has a policy of not offering specific results guidance.

Operationally, the group remains focused on completing the roll out of Telstra format stores. In addition, the group is evaluating sites for the potential expansion of the Next Byte portfolio. It is expected that stores rolled out in the last 12 months will become more mature and deliver improved rates of contribution to the business.

In addition to the rollout program, the group will focus on the profitability of its operations, driving margin accretive initiatives such as service expansion, new products and services, and growth in enterprise and education channels, and improving labour efficiencies.

REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executives, senior executives, general managers and secretary of the Parent and the Group.

Details of key management personnel, including the senior executives of the Company and the Group:

(i) Directors

Dick Simpson	Chairperson (Independent Non-executive)
David McMahon	Joint Chief Executive Officer
Maxine Horne	Joint Chief Executive Officer
Neil Osborne	Director (Independent Non-Executive)
Melinda Snowden	Director (Independent Non-Executive) (resigned on 22 August 2011)
Diana Ryall	Director (Independent Non-Executive)

(ii) Executives

Peter Connors	General Manager Mobile Phones
Maxine Horne	General Manager Next Byte – appointed 21 January 2011
Andrew Leyden	Chief Financial Officer – appointed 9 May 2011
Wayne Smith	Chief Organisation Development Officer
Mark Anning	Group Company Secretary and Legal Counsel
Shane Flynn	General Manager – Next Byte – resigned 21 January 2011
Christine Kelly	Chief Financial Officer and Group Company Secretary – retired 8 April 2011

Remuneration Policy

The Company has a focus to "Get, Grow and Keep" great people. One of our four key business drivers is "Delivering a consistent and positive team member experience that optimises business performance." An element of this is to "provide remuneration that is competitive and rewards achievement."

In using our "Get, Grow and Keep" approach, our remuneration practices have a large role to play. Remuneration needs to be market competitive to help identify, attract and select the right people to join Vita Group. To assist in motivating team members to drive business performance, Vita's Member Performance Review and Feedback process delivers a pay for performance dynamic. This also plays an important role in retaining key talent, along with a performance and consequence culture to ensure that the key elements of business achievement at Vita Group are measured, monitored and rewarded.

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Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration & Nomination Committee

The Group has a Remuneration and Nomination Committee operating under a charter approved by the Board and reviewed annually.

The Remuneration and Nomination Committee comprises three Non-Executive Directors including the Committee Chairperson. The Chairperson and/or any other Director are entitled to be present at all meetings of the committee, whether they are a member of the committee or not. Meetings of the committee are attended by invitation, by the Joint Chief Executive Officers, the Chief Organisation Development Officer, and such other senior staff as may be appropriate from time to time.

Minutes of all committee meetings are provided to the Board. The Chairperson of the committee also reports to the Board after each committee meeting.

The Chief Organisation Development Officer, the Group Human Resources Manager, and the Company Secretary support the committee.

Employee Share Plans

Vita Group has the following share plans historically available for team members and Directors:

- Employee Bonus Share Plan
- Employee Share Options Plan
- Non-Executive Director Share Plan

The Group's Share Trading Policy provides that the entering into of all types of "protection arrangements" (including hedges, derivatives and warrants) in connection with any of the Group's listed securities that are held directly or indirectly by directors or employees is prohibited at any time, irrespective of whether such protection arrangements are entered into during trading windows or otherwise. This prohibition extends to vested and unvested shares or options in any share or option plan.

Protection arrangements aim to prevent transactions which:

- amount to 'short selling' of the Group's listed securities beyond the Director's or employee's holding of the listed securities
- operate to limit the economic risk of any Director's or employee's holding of the listed securities or options
- otherwise enable a Director or employee to profit from a decrease in the market price of the listed securities.

Directors and key managers are advised of the policy on appointment, and are reminded of their obligations to advise the Group of any dealings in Vita Group securities at the end of each Board and senior management meeting. The Company Secretary holds option certificates.

A summary of each of the plans is as follows.

Employee Bonus Share Plan

The Remuneration and Nomination Committee is responsible for reviewing the operation of the Group's Employee Bonus Share Plan, which was approved by the Board on 4 April 2005.

This share plan has been established by Vita Group to enable employees to acquire shares in the Group up to the market value of \$1,000, depending on length of service.

The Remuneration and Nomination Committee of the Company administer the plan. The committee may from time to time issue offers on behalf of the Company to employees. These employees may apply to acquire the number of shares specified in the invitation. The initial value of the shares to Australian tax residents is intended to be free of income tax (under current tax laws) provided the requisite tax election is made.

Shares may be acquired for participants by way of an issue of shares by the Group, by acquiring shares in the ordinary course of trading, or by off-market purchases. The Company may issue shares for no consideration. The Board may also decide that an offer will involve a salary sacrifice.

Participants are prevented from disposing of shares acquired under the plan until the earlier of:

- three years after the date of acquisition of the shares; or
- the day after the date on which the participant ceased, or first ceased, to be employed by the Group because of death or other special circumstances.

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Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

The number of shares acquired during the previous five years from new issues by the Group under the plan and all other employee share schemes established by the Group must not exceed 5 % of the total number of issued shares.

Shares will rank equally with all existing shares on and from the date of issue.

The Remuneration and Nomination Committee has power to terminate or suspend the operation of the plan at any time, provided that the termination or suspension does not adversely affect or prejudice the rights of participants holding shares at that time.

Directors are eligible to participate in the plan, but, under Listing Rule 10.14, Shareholders must approve any allocations to Directors.

No offers have been made under the Employee Bonus Share Plan during the current year.

Employee Share Option Plan

The Remuneration and Nomination Committee is responsible for reviewing the operation of the Group's Employee Share Option Plan, which was approved by the Board on 4 April 2005.

An employee of the Group or any of its associated companies to whom the Board decides to make an offer is an eligible employee under this plan. The intent of the plan is to provide incentives to key managers.

Each option entitles the holder to subscribe for one share in the Group at the exercise price specified in the invitation, subject to the vesting requirements below.

Options issued at listing will vest and may be exercised as follows:

- one third of the options vest on the first anniversary of issue;
- a further one third of the options vest on the second anniversary of issue; and
- the remaining one third of the options vest on the third anniversary of issue.

Subsequent issues of options will vest over three years or on dates specified by the Board.

There are other vesting conditions relating to cessation of employment, death and permanent disability as well as a general discretion of the Board to accelerate vesting.

Options, which have vested, may be exercised at any time:

- during the months of March or September which occur before the fifth anniversary of the date of issue; or
- during the period of two months before the fifth anniversary of the date of issue.

On resignation of an employee, any vested options must be exercised within two months of the date of resignation. Unvested options are forfeited on resignation. There are various powers of the Board to modify the exercise periods if there is accelerated vesting.

Before exercising an option, the employee must have satisfied all of the criteria attaching to the exercise of the options that were set out in the invitation (unless the Board has, in writing, approved the waiver of this condition).

The total number of options on issue under the Plan must not exceed 5 % (on a fully diluted basis) of the total issued share capital of the Group at any time. However, the Board may in its absolute discretion from time to time increase the number of options on issue under the plan.

Shares issued under the plan will have the same rights as all other ordinary shares. The Board may resolve to amend the plan from time to time to ensure consistency with any relevant law.

The outstanding vested and exercisable balance of 1,252,000 held by a former member of the KMP as at 30 June 2010 were exercised on 23 August 2010 and a further 1,252,000 shares were issued thereafter for a consideration of \$234,875.20, as recorded in last year's report.

As at the date of this report, there are no outstanding or granted options. No offers have been made under the Employee Share Option Plan during the current year.

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Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Non-Executive Directors are not eligible to participate in the plan, and Shareholders must approve any allocations to Executive Directors.

The options issued at listing were not subject to any performance criteria as it was considered important the key managers involved receive options so that they had a significant interest in the Group's performance and share price, and a significant alignment of their interests with the interests of Shareholders.

Non-Executive Director (NED) Share Plan

The Remuneration and Nomination Committee is responsible for reviewing the operation of the Group's Non-Executive Director Share Plan, which was approved by the Board on 4 April 2005.

Under the plan, Non-Executive Directors may acquire shares in the Group in lieu of cash remuneration. Each Non-Executive Director may at any time elect to participate in the NED Share Plan in respect of any dollar amount or proportion of their remuneration. They may also nominate an associate to receive the shares.

The Board may determine whether shares to be allocated under the plan are to be acquired on market or issued at market value (being the 20 business day volume weighted average price as at the allocation date).

The value of shares, which can be issued to Non-Executive Directors in remuneration in any year, must not exceed the maximum aggregate annual sum payable to the Non-Executive Directors as remuneration as outlined in the Constitution or as approved by Shareholders. Subject to this rule, the Board may agree between themselves the total number of shares to be allocated to each participant in lieu of fees under the plan.

All shares issued under the plan will rank equally with other ordinary shares on issue.

Participants are prohibited from dealing with any shares acquired under the plan until the earlier of:

- the date on which the participant ceases to be a Director;
- the date which is three years from the issue date; or
- a determination by the Remuneration and Nomination Committee to cease trading restrictions applying to the participant's shares, following an application by the participant.

The plan is administered by the Remuneration and Nomination Committee of the Group. It may terminate or suspend the operation of the plan at any time.

No elections have been made by Non-Executive Directors to participate in the Non-Executive Director Share Plan during the current year.

Group Performance

Vita Group has been a listed entity since 2 November 2005. Revenue and profit figures for the current year, and the five prior years are as follows:

	2011	2010	2009	2008	2007	2006
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue from operating activities	386.9	***292.0	297.8	**310.2	**197.8	**181.8
EBIT *	11.1	11.5	8.1	**11.0	**10.8	**16.6
Net Profit after Tax	6.8	7.7	5.4	**7.5	**7.0	**10.7
Total dividend paid (cents per share)	cents 3.1	cents -	cents -	cents 3.5	cents 3.3	cents 0.4
Market Price per Share at 30 June	\$ 0.22	\$ 0.22	\$ 0.09	\$ 0.23	\$ 0.68	\$ 1.30

* EBIT has been calculated using "net interest" and income tax expense.

** The 2008 result reported above has been restated to incorporate a correction of error as detailed in Note 3 of the Annual Financial Report for the year ended 30 June 2009. Results reported above for prior periods have not been restated.

*** The 2010 result has been restated to incorporate a reclassification of impairment expense from operating expenses as depreciation, amortisation and impairment charges, a reclassification of unwinding of discount to provisions as finance costs and a further reclassification of interest to finance costs

Vita Group shares were sold under the IPO at \$1.00 and at 30 June 2011 were trading at \$0.22 (2010: \$0.22).

A final dividend has been declared for the year ended 30 June 2011 of 1.1 cents per share (2010: Nil). The total dividend for the year was 3.1 cents per share (2 cents interim paid plus 1.1 cents final declared) (2010: Nil).

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration Structure

The remuneration structure for key managers and Non-Executive directors is set out below.

Remuneration of Key Managers

As indicated in the Remuneration Policy section, remuneration is a key lever used to ensure Vita remains competitive in enabling the group to attract, grow, and retain executives.

KMPs receive:

- A. Fixed Remuneration which comprises the following aspects:
- o Salary,
 - o Superannuation Contributions,
 - o Such other non-cash benefits (including motor vehicles) as are agreed from time to time, and
 - o The amount of any fringe benefits tax, GST and other taxes payable by Vita Group in consequence of the provision of non-cash benefits.

Fixed Remuneration is reviewed annually by the Remuneration and Nomination Committee, taking into account the Group and individual performances as well as external remuneration market data.

- B. Variable Remuneration Components, such as Vita Group and the employee may agree from time to time:
- o Short Term Incentive Program (STIP) – short term incentive payments in the form of commission and bonus payments, based on performance assessed against a set of agreed criteria for each individual;
 - o Long Term Incentive Program (LTIP)

Entitlement to variable remuneration is presently limited to STIP, as the LTIP remains under review (with any change designed to drive retention, optimal business outcomes and a performance based culture).

Under the STIP, KMP's are able to earn up to the following percentage of their Fixed Remuneration, based on the fulfilment of KPI's agreed between the Group and them in respect of the relevant year:

CEO:	40 %
Other KMP:	25 %

KPI's for all KMP's include targets across four key business drivers:

- Financial outcomes
- Customer outcomes
- People outcomes, and
- Process improvement and efficiency outcomes.

Additional KPI's are agreed between the Chairperson and CEO's in respect of CEO development and specific group outcomes. Fixed and variable remuneration for each key manager is set out in the table below.

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Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Managers (continued)

Name & Position	Year	Short Term Employee Benefits				Post Employment Benefits	Long Term Benefits	Share Based Payments		Total Package Value \$
		Cash salary and fees \$	Termination payments \$	Non-monetary Benefits (a) \$	Cash /Bonus (b) \$	Superannuation \$	Long Service Leave \$	Employee Share Options (d) \$	Options as a % of Total Package %	
Maxine Horne <i>Joint Chief Executive Officer</i>	2011	497,210	-	31,485	216,522	25,000	11,128	-	-	781,345
	2010	458,643	-	40,380	92,890	30,315	11,253	-	-	633,481
David McMahon <i>Joint Chief Executive Officer</i>	2011	494,237	-	53,249	149,502	25,000	8,476	-	-	730,464
	2010	509,515	-	15,299	101,376	32,232	7,915	-	-	666,337
Andrew Leyden (Appointed: 9 May 2011) <i>Chief Financial Officer</i>	2011	63,636	-	-	-	-	-	-	-	63,636
	2010	-	-	-	-	-	-	-	-	-
Peter Connors <i>General Manager Mobile Phones</i>	2011	260,925	-	-	45,872	27,375	-	-	-	334,172
	2010	188,038	-	-	23,853	18,660	5,249	-	-	235,800
Wayne Smith <i>Chief Organisation Development Officer</i>	2011	235,062	-	-	50,752	24,946	-	-	-	310,760
	2010	222,194	-	-	27,431	21,460	7,181	-	-	278,266
Mark Anning (Appointed 10 November 2009) <i>Group Company Secretary/Legal Counsel</i>	2011	189,709	-	-	17,431	17,384	-	-	-	224,524
	2010	113,854	-	-	-	9,654	1,861	-	-	125,369
Christine Kelly (Retired: 8 April 2011) <i>Chief Financial Officer</i>	2011	163,541	146,260	-	36,124	17,481	-	-	-	363,406
	2010	189,378	-	-	21,820	19,303	6,265	-	-	236,766
Shane Flynn (Appointed: 7 September 2010 Resigned: 21 January 2011) <i>General Manager Retail Next Byte</i>	2011	103,693	28,052	-	-	8,416	-	-	-	140,161
	2010	-	-	-	-	-	-	-	-	-
Jim Collier (Resigned 30 June 2010) <i>General Manager Mobile Phones</i>	2011	3,453	-	-	(4,128)	4,764	-	-	-	4,089
	2010	223,244	-	-	50,000	19,188	3,842	-	-	296,274
Darren Gaunt (Resigned: 23 June 2010) <i>General Manager Retail Next Byte</i>	2011	2,790	119,453	-	-	251	-	-	-	122,494
	2010	225,990	-	-	18,349	23,330	4,026	-	-	271,695
TOTAL	2011	2,014,256	293,765	84,734	512,075	150,617	19,604	-	-	3,075,051
	2010	2,130,856	-	55,679	335,719	174,142	47,592	-	-	2,743,988

(a) Other benefits include motor vehicles, fuel allowance, private and spouse travel, and corporate hospitality.

(b) Bonus payments to key managers are at the discretion of the executive directors who take into account the group and individual performance against key performance indicators.

(c) Annual bonuses for David McMahon and Maxine Horne are based upon a performance assessment against predetermined criteria. At the time of completion of this report, the Remuneration and Nomination Committee had not yet met to assess entitlements for 2011. The annual bonus for key management personnel (other than the CEO's), being Christine Kelly, Wayne Smith, Peter Connors and Mark Anning, is based upon a performance assessment against predetermined criteria. At the time of completion of this report, 2011 entitlements had not been assessed; this report reflects bonus paid in 2011 relating to 2010 entitlements. The annual bonus in 2010 reflects bonus paid in 2010 relating to 2009 entitlements.

(d) The remuneration and other terms of employment for Andrew Leyden (the Chief Financial Officer) are formalised in a service agreement commencing 9 May 2011 and subject to a review prior to 7 November 2011. Mr. Leyden is responsible for his own superannuation arrangements. The contract does not stipulate any short-term incentive or long-term incentive. No bonuses have been paid to Mr. Leyden in the year since commencement.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Managers (continued)

Name	Fixed Remuneration		At Risk – STI *	
	2011	2010	2011	2010
Executive Directors				
Maxine Horne	60.9%	82.5%	39.1%	17.5%
David McMahon	73.9%	81.8%	26.1%	18.2%
Other Key Management Personnel				
Andrew Leyden	100.0%	-	-	-
Christine Kelly	80.0%	89.5%	20.0%	10.5%
Peter Connors	84.1%	88.5%	15.9%	11.5%
Wayne Smith	80.5%	88.7%	19.5%	11.3%
Mark Anning	91.6%	100%	8.4%	-
Jim Collier	-	79.4%	-	20.6%
Darren Gaunt	-	92.6%	-	7.4%

* At Risk - STI component of Total Package Value is calculated as the proportion of bonuses received to Fixed Remuneration (being cash salary and fees, non-monetary benefits and superannuation).

Options granted as part of remuneration

	Total value of options at Grant Date*	Total Number of options at 30 June 2010	Number of options granted during the year	Number of options exercised during the year	Number of options forfeited during the year	Total Number of options at 30 June 2011 [#]
Darren Gaunt	903,109	1,252,000	-	(1,252,000)	-	-

* Using share value as at option Grant Date

[#] These final outstanding vested and exercisable options were exercised on 23 August 2010 and a further 1,252,000 shares were issued thereafter for a consideration of \$234,875.20. As at the date of this report, there are no outstanding options.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Employment Contracts

Chief Executive Officers

David McMahon and Maxine Horne are employed under Contracts of Employment, which were reviewed and updated with effect 30 June 2010.

Under the terms of the Contracts:

- Each Chief Executive Officer is entitled to fixed remuneration and such performance bonus as Vita Group and each Chief Executive Officer may agree from time to time.
- Each Chief Executive Officer may resign their position and thus terminate the Contract by giving a minimum of six months notice.
- The group may terminate the Contract by giving a minimum of six months notice or providing payment in lieu of the notice period.
- The group may terminate the Contract at any time without notice if serious misconduct has occurred.

Other Executives

KMPs are employed under a standard Contract of Employment, which was reviewed and updated with effect from 22 June 2009.

Under the terms of the Contracts:

- Each KMP is entitled to fixed remuneration and such STIP and LTIP as Vita Group and the employee may agree from time to time.
- The employee may resign his position and thus terminate the Contract by giving a minimum of 13 weeks notice.
- The Group may terminate the Contract by giving a minimum of 13 weeks notice, (or 14 weeks notice if the employee has more than 2 years of service and is over 45 years old), or by providing payment in lieu of the notice period.

The Group may terminate the Contract at any time without notice if serious misconduct has occurred.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Non-Executive Directors

Fees for Non-Executive Directors are based on the scope of Directors' responsibilities and on the relative size and complexity of Vita Group.

The Remuneration & Nomination Committee considers the level of remuneration required to attract and retain Directors with the necessary skills and experience for the Vita Group Board. This takes into account survey data on the level of Directors' fees being paid to Directors of companies of comparable size and complexity.

No equity incentives are offered to Non-Executive Directors. However, Non-Executive Directors may elect to take all or part of their remuneration as shares in Vita Group, in accordance with the Non-Executive Director Share Plan.

No retirement allowances are payable to Non-Executive Directors.

The remuneration details for Non-Executive Directors during the year are shown in the Directors' remuneration table below.

The maximum aggregate sum for the remuneration of Non-Executive Directors is \$350,000, set when the constitution of the Group was adopted on its formation on 1 March 2005. This sum covers Directors' fees and superannuation contributions. The base Director's fee per year, inclusive of superannuation, and including committee work, is \$54,500. The Chairperson's fee is \$109,000.

Name		Directors' Fees \$	Superannuation (a) \$	Total \$
Dick Simpson	2011	99,281	9,719	109,000
Chairperson	2010	99,281	9,719	109,000
Neil Osborne	2011	50,000	4,500	54,500
Non-executive	2010	50,000	4,500	54,500
Melinda Snowden	2011	50,000	4,500	54,500
Non-executive	2010	50,000	4,500	54,500
Diana Ryall	2011	50,000	4,500	54,500
Non-executive	2010	12,500	1,125	13,625
Total Non-Executive Directors	2011	249,281	23,219	272,500
	2010	211,781	19,844	231,625
David McMahon	2011	Details are in the remuneration of key		730,464
<i>Joint Chief Executive Officer</i>	2010	managers table above		666,337
Maxine Horne	2011	Details are in the remuneration of key		781,345
<i>Joint Chief Executive Officer</i>	2010	managers table above		633,481
Total Directors	2011			1,784,309
	2010			1,531,443

(a) Superannuation includes cash and Vita Group shares issued under the Non-Executive Director Share Plan, contributed to complying superannuation funds.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

SHARE OPTIONS

Prior to listing on the Australian Securities Exchange (ASX), the Board approved the Employee Share Option Plan. At the time of listing, 5,634,000 options to acquire shares in Vita Group Limited were issued to key managers under the Plan. The final 1,252,000 vested and exercisable options at June 2010 were exercised on 23 August 2010 and 1,252,000 shares were issued thereafter for a consideration of \$234,875.20 (2010: No options exercised). As at the date of this report, there are no outstanding options.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations of Vita Group are not subject to any particular and significant environmental regulation under any law of Australia or of any State or Territory of Australia. Vita Group has not incurred any liability under any environmental legislation.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

Under clause 102 of Vita Group's constitution, the Group has agreed to indemnify to the extent permitted by law and the Corporations Act 2001:

- every person who is or has been an officer of the Group against any liability (other than for legal costs) incurred by that person as an officer of the Group (including liabilities incurred by the officer as an officer of a subsidiary of the Company where the Company requested the officer to accept that appointment).
- every person who is or has been an officer of the Group against reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by that person as an officer of the Group (including such legal costs incurred by the officer as an officer of a subsidiary of the Company where the Company requested the officer to accept that appointment).

Insurance Premiums

During the financial year the Group paid insurance premiums in respect of Directors' and Officers' liability and legal expense insurance contracts, for current and former Directors and senior executives, including senior executives of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

It is a condition of the policies that premiums paid and terms and conditions of the policies are not to be disclosed.

During or since the end of the financial year the group has not indemnified or made a relevant agreement to indemnify an auditor of the company or of any related body corporate against a liability incurred by such an auditor. In addition the company has not paid, or agreed to pay a premium in respect of a contract insuring against a liability incurred by an auditor.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Group under ASIC Class order 98/100. The Company is an entity to which the Class Order applies.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

Independence

The declaration of independence from the auditor of Vita Group Limited is appended to this Directors' Report.

Non-Audit Services

The following non-audit services were provided by the company's auditor, PricewaterhouseCoopers. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

PricewaterhouseCoopers received or are due to receive the following amounts for the provision of non-audit services:

	2011 \$	2010 \$
PricewaterhouseCoopers		
Tax compliance and consulting services	67,355	37,730
Other assurance services	-	6,000
	<u>67,355</u>	<u>43,730</u>

Signed in accordance with a resolution of the Directors.



Dick Simpson
Chairperson

David McMahon
Director and Joint Chief Executive Officer

Brisbane
29 August 2011



Auditors' Independence Declaration

As lead auditor for the audit of Vita Group Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Vita Group Limited and the entities it controlled during the year.

A handwritten signature in black ink, appearing to read 'Steven Bosiljevac', with a long horizontal line extending to the right.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
29 August 2011

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VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement

This statement is organised under the headings in the ASX Corporate Governance Council's ASXCGC 8 Corporate Governance Principles and Recommendations, dated August 2007.

This statement and the following supporting documents are posted on the Group's website www.vitagroup.com.au.

- Board Charter
- Audit, Compliance & Risk Committee Charter
- Remuneration & Nomination Committee Charter
- Continuous Disclosure Policy
- Share Trading Policy
- Code of Business Practice & Ethics
- Performance Evaluation Process
- Director Selection, Appointment, and Re-election Policy and Procedures
- External Auditor Selection and Rotation of Audit Partner Policy and Procedures
- Shareholder Communication Policy
- Risk Management Policy
- Diversity Policy

The Group complies with all the recommendations set out in the ASXCGC Corporate Governance Principles and Recommendations.

Principle 1: Lay solid foundations for management and oversight

Board Charter

The Board has adopted a Board Charter establishing the following:

- Board Responsibilities
- Board Composition
- Policy on Independence
- Policy relating to Meetings
- Board Committees
- Review of Board Effectiveness

The Board Charter is reviewed annually.

The responsibilities and functions reserved to the Board as set out in the Board Charter include:

- approving and monitoring strategies, budgets, and plans
- approving policies and codes of conduct
- reviewing and monitoring systems of risk management, internal control, and regulatory compliance
- approving and monitoring the progress of acquisitions and disposals, or the cessation of any significant asset, business, or function, and reviewing material transactions and changes to organisational structure
- approving annual and half-yearly financial statements, other published financial information, and dividends
- appointing and monitoring the performance of the Chief Executive Officers
- determining the levels of authority to be given to the Chief Executive Officers
- ratifying the appointment of Senior Managers, monitoring their performance, and approving succession plans for the management team
- approving the issue of any securities of the Group.

The day-to-day management of the Group is delegated to management, including the following:

- financial and capital management and reporting
- operations
- information technology
- marketing
- customer service
- relationships with investors, media, analysts and other industry participants
- human resources
- reporting to the Board on performance

Delegated Authorities

The Board has adopted a formal statement of Delegated Authorities, setting out financial and other limits delegated to management, and matters requiring Board approval.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

Appointment of Non-Executive Directors

Letters of appointment are prepared for Non-Executive Directors, covering terms of employment, duties and responsibilities, time commitment expected, and requirements relating to disclosure of interests and trading in the Group's shares. An induction pack is provided at the time of appointment, and new Directors undergo an induction process.

Appointment and Evaluation of Senior Managers

The responsibilities and terms of employment, including termination entitlements, of the Chief Executive Officers, the Chief Financial Officer, and other Senior Managers, are set out in formal employment agreements.

Each Manager is formally inducted on appointment, and has a position description, and a set of Key Performance Objectives (KPOs) with annual goals. Each Manager's performance against his/her KPOs and goals is formally evaluated twice a year. The evaluation is used in determining future remuneration. The most recent performance evaluation of all Senior Managers in accordance with this process commenced in July 2011.

Principle 2: Structure the Board to Add Value

The Board Charter sets out the structure of the Board and its committees, the framework for independence, and arrangements for performance evaluation.

The Board comprises four Non-Executive Directors (including the Chairperson) and two Executive Directors (the Chief Executive Officers). The names, skills and experience of the Directors in office at the date of this statement, and the period of office of each Director, are set out on pages 4 and 5 in this Annual Report.

Independence of Directors

The Board distinguishes between the concept of independence, and the issues of conflict of interest or material personal interests, which may arise from time to time.

If at any time the Board is required to make a decision on any matter in which a Director has or Directors have an actual or potential conflict of interest or material personal interest, the Board's policies and procedures require that:

- the interest is fully disclosed and the disclosure is recorded in the Board minutes
- the relevant Director is excluded from all considerations of the matter by the Board
- where possible, the relevant Director does not receive any segment of the Board papers or other documents in which there is any reference to the matter.

The determination of independence remains a matter for the Board's judgment in accordance with its policy on independence. Until the Board otherwise resolves, the policy is that a Director will be independent if they are independent of management and free of any business or other relationship that could materially interfere with - or could reasonably be perceived to interfere with - the independent exercise of their judgment.

The independence of each Director is assessed regularly, based on the interests disclosed by them. In assessing the independence of Non-Executive Directors, the Board will consider if the Director:

- is a substantial shareholder (within the definition of section 9 of the Corporations Act) of Vita Group, or an officer of, or otherwise associated directly with, a substantial shareholder of Vita Group;
- has, within the last 3 years, been employed in an executive capacity by the Vita Group of companies;
- has, within the last 3 years, been directly involved in the provision of advice or consulting services (including audit services) to Vita Group where the average annual amount paid for that advice or services exceeded 5 % of the total annual fees earned by that firm or 1% of Vita Group's annual consolidated group revenue;
- is directly involved with a supplier to Vita Group where the average annual amount paid by Vita Group to that supplier exceeds 5 % of the annual consolidated group revenue of that supplier or 5 % of Vita Group's annual consolidated group revenue;
- is directly involved with a customer of Vita Group where the average annual amount paid to Vita Group by that customer exceeds 5 % of the annual consolidated group revenue of that customer or 5 % of Vita Group's annual consolidated group revenue;
- has a contractual relationship with Vita Group, which accounts for more than 10% of his/her annual gross income (other than as a director of Vita Group).

The Board will state its reasons if it considers a Director to be independent notwithstanding the existence of a relationship of the kind referred to above. At this stage none of the Directors considered to be independent has any of the above relationships.

The Board's policy is to have a majority of independent directors to the extent practicable. At this stage, a majority of the Board (4) (Messrs R.A. Simpson and N.A. Osborne, Ms Diana Ryall AM and Ms M.F. Snowden) is considered to be independent.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

Independent Professional Advice

Each Director has the right, at the Group's expense, to seek independent professional advice in relation to the execution of Board responsibilities. Prior notification to the Board is required and where appropriate, Directors are required to share such advice with the Group and the other Directors.

Directors' Interests

The relevant interests of the Directors in the shares of the Company are set out in the Director's Report on page 6 of this Annual Report.

The Chairperson of the Group is an independent Non-Executive Director.

Separate individuals exercise the roles of Chairperson and Chief Executive Officer.

Remuneration and Nomination Committee

The Group has a Remuneration and Nomination Committee operating under a written charter approved by the Board and reviewed annually.

The Remuneration and Nomination Committee comprises three independent Non-Executive Directors including the Committee Chairperson.

The names and qualifications of members of the Remuneration and Nomination Committee and their attendance at meetings are set out in this report. The Chairperson and/or any other Director is entitled to be present at all meetings of the Committee, whether they are a member of the Committee or not. Meetings of the Committee are attended by invitation, by the Chief Executive Officers, the Group Organisation Development Manager, and such other senior staff or professional people as may be appropriate from time to time. The number of meetings of the Committee held during the year is set out on page 6 of this Annual Report.

The Committee regularly reviews the size, composition and effectiveness of the Board. This review includes an assessment of the necessary and desirable skills of Board members, Board succession plans, and consideration of appointments, re-elections and removals. The Committee also reviews the induction procedures for new directors. Evaluation of the Board's performance is carried out by the full Board.

When a Board vacancy occurs, the Remuneration and Nomination Committee identifies the particular skills, experience and expertise that will complement Board effectiveness, and then undertakes a process to identify candidates who can meet those criteria.

In its deliberations, the Remuneration and Nomination Committee is focused on the number and nature of other directorships, and availability of time to commit to the Group's affairs, of all present and potential Directors.

When a Director is due to stand down at the next AGM, particular attention is paid to the Director's performance and contribution, preparation for meetings, and time availability. Prior to the Notice of Meeting for the AGM being sent out, the Remuneration & Nomination Committee reviews the performance of each Director due to stand down, and reviews the mix of skills and experience required by the Board. Each Director involved is asked to formally acknowledge that he/she has sufficient time available to carry out the duties of a Director of Vita Group. If it is considered that a Director due to stand down should be recommended for re-election, a formal recommendation is made by the Committee.

Minutes of all Committee meetings are provided to the Board. The Chairperson of the Committee also reports to the Board after each Committee meeting.

Board Performance

In line with the recommendations of the ASXCGC, the Board conducts evaluations of the Board every year. The Group's Performance Evaluation Process includes the evaluation of the Board, its Committees, and individual Directors. An evaluation of the Board and its Committees was undertaken during the reporting period.

Directors are provided with comprehensive reports on the operations and financial performance of the Group at each scheduled Board Meeting and are entitled to request and receive further information if they consider such information necessary. All Directors have access to the Company Secretary who coordinates the preparation and despatch of Board Agendas and Board Papers. The appointment and removal of the Company Secretary is a Board responsibility. The Company Secretary attends all Board meetings, and is accountable to the Chief Executive Officers and, through the Chairperson, the Board, on all corporate governance matters.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

Principle 3: Ethical and Responsible Decision Making

Code of Business Practice & Ethics

The Board has endorsed a Code of Business Practice & Ethics that formalises the obligations and responsibilities of all employees and Directors to act ethically, behave with integrity, avoid conflicts of interest, and obey the law, in all business activities.

The Code provides for employees who become aware of possible breaches of the Code to report this. Such reports are treated confidentially to the extent possible consistent with the Group's obligation to deal with the matter openly and according to applicable laws. No employee will be subject to retaliation or disadvantage by reason of a bona fide report of possible non-compliance, in accordance with the Group's Whistleblower Policy.

Appropriate training programs on the Group's internal policies including Code of Business Practice & Ethics, workplace health and safety, environmental law compliance, and trade practices legislation, support this process.

Trading in Company Securities by Directors, Officers and Employees

The Board has established written guidelines, set out in its Share Trading Policy, that restrict dealings by Directors and employees in the Company's shares.

The Share Trading Policy identifies certain periods when, in the absence of knowledge of unpublished price-sensitive information, Directors and senior management employees may, with the approval of the Chairperson, buy or sell shares in the Group. These periods are the 30 days following the announcement of half year and full year results, and following the Annual General Meeting, or the issue of a Prospectus offering shares in the Group.

The entering into of all types of "protection arrangements" (including hedges, derivatives and warrants) in connection with any of the Group's listed securities that are held directly or indirectly by Directors or employees is prohibited at any time. This prohibition extends to vested and unvested shares or options in any share or option plan.

No Director or employee holding, or having an interest in, or having control of through family, associates, colleagues, a private group or a trust, more than 0.5 % of the Group's listed securities, is permitted to enter into 'margin loan' or similar arrangements in respect of those listed securities. If any Director or employee who holds, or has an interest in, or has control of through family, associates, colleagues, a private group or a trust, any of the Group's listed securities, enters into a 'margin loan, or similar arrangements in respect of those listed securities, he or she must advise the Group of the existence and details of the arrangement.

Directors, Senior Managers, and employees having regular access to confidential information are required annually to sign a statement confirming that they have complied with the provisions of the Share Trading Policy.

Diversity Policy

As a listed entity, the Group is committed to compliance with the ASX Corporate Governance Principles and Recommendations where it is practical and appropriate, in the context of the nature, scope and circumstances of the business of Vita Group, for it to do so. Relevantly, Recommendation 3.2 provides that companies should establish a policy concerning diversity. The Board has adopted a Diversity Policy, and a copy is published on the Group's website. The Diversity Policy is designed to support Vita Group's commitment to diversity and to compliance generally with the ASX Corporate Governance Principles and Recommendations.

Principle 4: Integrity in Financial Reporting

Audit, Compliance and Risk Committee

The Group has an established Audit, Compliance and Risk Committee operating under a written charter approved by the Board and reviewed annually.

The Audit, Compliance and Risk Committee comprises three independent Non-Executive Directors including the Chairperson who is not also Chairperson of the Board. This complies with the ASXCGC Recommendations as well as ASX Listing Rule 12.7.

The names and qualifications of members of the Audit, Compliance and Risk Committee and their attendance at meetings are set out in this report. The Chairperson and/or any other Director are entitled to be present at all meetings of the Committee, whether or not they are a member of the Committee. Meetings of the Committee are attended by invitation, by the Chief Executive Officers, the Chief Finance Officer, the engagement partner from the Group's external auditor, and such other senior staff or professional people as may be appropriate from time to time. The number of meetings of the Committee held during the year is set out on page 6 of this Annual Report.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

Principle 4: Integrity in Financial Reporting (continued)

Audit, Compliance and Risk Committee (continued)

The Committee assists the Board in fulfilling its responsibility to verify and safeguard the integrity of the Company's financial reporting, oversees and appraises the audits conducted by the Company's external auditors, monitors the adequacy of external reports for Shareholder needs, reviews the effectiveness of the Company's internal controls, and reviews the effectiveness of the risk management policies and practices of the Company.

The Committee has unlimited access to the external auditors, and to the senior management of the Group. The Committee may, with authority from the Chairperson of the Board, consult with independent experts where they consider such consultation necessary to carry out their duties.

Minutes of all Committee meetings are provided to the Board. The Chairperson of the Committee also reports to the Board after each Committee meeting.

Auditor Appointment

The Board has established an External Auditor Selection and Rotation of Audit Partner Policy and Procedures, and assesses the performance of the External Auditors annually. The position of External Auditor will be put to tender from time to time. PricewaterhouseCoopers were appointed External Auditors following a tender process in November 2008.

Auditor Independence

The external auditor, PricewaterhouseCoopers, has declared its independence to the Board. The engagement partner will be rotated every 5 years in accordance with the Corporations Act. The Audit, Compliance and Risk Committee has examined detailed material provided by the external auditor and by management and has satisfied itself that the standards for auditor independence and associated issues are fully complied with.

Principle 5: Timely and Balanced Disclosure

The Group has established a Continuous Disclosure Policy for timely disclosure of material information concerning the Company. This Policy includes internal reporting procedures in place to ensure that any material price sensitive information is reported to the Company Secretary, Chief Financial Officer, or Chief Executive Officers, in a timely manner. These policies and procedures are reviewed regularly to ensure that the Company complies with its obligations at law and under the ASX Listing Rules.

The Company Secretary is responsible for communications with the Australian Securities Exchange, including responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules, and overseeing information going to the ASX, Shareholders and other interested parties. The matter of continuous disclosure is a permanent item on the agenda for all Board and senior management meetings and is specifically addressed by each Director and manager at those meetings.

Principle 6: Rights of Shareholders

Communications Strategy

The Group has established a Shareholder Communication Policy and aims to keep Shareholders informed of the Group's performance and all major developments in an ongoing manner. Information is communicated to shareholders through:

- the Annual Report which is posted on the Company's website, and mailed to Shareholders who have specifically requested it;
- the interim Shareholders' report which is posted on the company's website, containing summarised financial information and a review of the operations during the period since the annual report; and
- other correspondence regarding matters impacting on Shareholders as required.

All half-year and annual reports, and all relevant announcements made to the market, for at least the last three years, are placed in the Investor's section of the Company's website after release to the ASX. Shareholders who have requested notification are notified by email when new announcements are released.

Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. The Company provides shareholders with the opportunity to submit written questions that can be dealt with at the meeting or by individual response.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

Principle 7: Risk Management

The Board is responsible for overseeing the establishment and implementation by management of risk management systems, and reviewing the effectiveness of these systems. The board has assigned responsibility as follows:

- The Audit, Compliance & Risk Committee reviews and reports to the Board in relation to the group's financial reporting, internal control structure, risk management systems, and the internal and external audit functions.
- Management is responsible for identifying, managing, and reporting to the Board on risks in accordance with the Risk Management Policy, through a formal organisation-wide risk management framework.

A Risk Management Policy has been established and is reviewed annually by the Board.

A Risk Review of the Group occurred again this year, and material business risks were evaluated and updated. A Risk Register has been established and the Company Secretary is responsible for its maintenance. The responsible manager for each risk has been identified, and is required to report through the management chain to the Chief Executive Officers and the Audit, Compliance & Risk Committee on the maintenance of mitigating actions and the Residual Risk ranking of each risk within his/her area of responsibility.

Management of risk mitigation strategies forms part of the Key Performance Objectives (KPOs) of managers at all levels.

The Group does not have an Internal Audit function. An Assurance Team, reporting to the Chief Financial Officer conducts regular audits of stores, and, using a scoring system, provides feedback to the store and to management on control and compliance matters relating to store operations. The performance of stores with unsatisfactory scores is monitored to ensure they bring their practices and controls up to the required standard. Managers associated with stores whose score is below Group benchmarks forfeit their commissions and bonuses until the required standards are met. Any instances of fraud are also identified and monitored by the Assurance Team, with senior operational management. Where appropriate, perpetrators are prosecuted, and controls are reviewed to try and prevent future occurrences.

The Chief Executive Officers report twice a year to the Audit, Compliance & Risk Committee on the status of risks with a high residual risk ranking, and on the effectiveness of the management of the Group's material risks. The Chairperson of the Audit, Compliance & Risk Committee reports to the Board twice a year on the status of risks with a high Residual Risk ranking, and the status of risk management generally.

Certification of Risk Management Controls

In accordance with section 295A of the Corporations Act, the Chief Executive Officers and Chief Financial Officer have stated in writing to the Board each reporting period that:

- the reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board
- the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The statements from the Chief Executive Officers and Chief Financial Officer are based on formal sign off procedures reviewed by the Audit, Compliance & Risk Committee as part of the annual financial reporting process.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

Principle 8: Remuneration

The Remuneration and Nomination Committee of the Board is responsible for recommending and reviewing remuneration arrangements for the Directors, the Chief Executive Officers, and Senior Managers. The Remuneration and Nomination Committee assesses the appropriateness of the composition and amount of their remuneration on an annual basis. Where appropriate the Committee considers independent advice on policies and practices to attract, motivate, reward and retain strong performers.

The Committee recommends and reviews the terms and conditions of appointment of Directors, the Chief Executive Officers, and Senior Managers, and reviews the operation and effectiveness of the Non-Executive Director Share Plan, the Employee Bonus Share Plan, and the Employee Share Option Plan.

The Group's remuneration policy links the nature and amount of the Chief Executive Officers' and Senior Managers' remuneration to the executives' personal performance, and the Company's long term financial and operational performance.

Non-Executive Directors receive an agreed annual fee, within the limits approved by Shareholders, and do not receive incentive payments or retirements benefits other than superannuation contributions.

Further details on the Remuneration and Nomination Committee are set out in Principle 2 above.

Further details of the remuneration of Non-Executive Directors, Executive Directors, and Senior Managers are contained in the Company's Remuneration Report on pages 10 to 18 of this Annual Report.

The Group's policy with regard to all types of "protection arrangements" (including hedges, derivatives and warrants) in connection with any of the Company's securities that are held directly or indirectly by Directors or employees is referred to under Principle 3 above, and included in the Group's Share Trading Policy.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

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These financial statements are the consolidated financial statements of the consolidated entity consisting of VITA Group Limited and its subsidiaries. The financial statements are presented in the Australian currency.

VITA Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

VITA Group Limited
77 Hudson Road
Albion QLD 4010

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 8 to 9, both of which are not part of these financial statements.

The financial statements were authorised for issue by the directors on 29 August 2011. The directors have the power to amend and reissue the financial statements.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Consolidated Statement of Comprehensive Income FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
Continuing Operations			
Sale of goods		322,953	239,439
Fee income / Commission		63,938	52,224
Revenue	4(a)	386,891	291,663
Cost of sales		(262,040)	(188,357)
Gross profit		124,851	103,306
Other income	4(b)	6,620	4,370
Employment expenses	4(e)	(75,687)	(57,377)
Marketing and advertising expenses		(7,936)	(4,172)
Operating lease rental expenses	4(f)	(16,936)	(15,613)
Administration expenses		(11,100)	(9,678)
Other expenses		(1,284)	(1,662)
Operating EBITDA		18,528	19,174
Depreciation, amortisation and impairment charges	4(d)	(7,171)	(6,683)
Finance income		627	339
Finance costs		(1,682)	(2,014)
Finance costs – net	4(c)	(1,055)	(1,675)
Share of (loss)/ profit from investment in a joint venture	15	(280)	-
Profit before income tax		10,022	10,816
Income tax (expense)	5	(3,194)	(3,149)
Profit from continuing operations		6,828	7,667
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, attributable to the ordinary equity holders of Vita Group Limited		6,828	7,667
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company			
- basic (cents per share)	6	4.80	5.43
- diluted (cents per share)	6	4.80	5.42

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Consolidated Balance Sheet AS AT 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	7,898	12,477
Trade and other receivables	9	22,144	24,587
Inventories	10	12,271	14,543
Total Current Assets		42,313	51,607
Non-current Assets			
Term Deposits	11	118	113
Plant and equipment	12	24,278	13,602
Intangible assets	13	57,789	54,500
Investments in joint ventures	15	-	-
Deferred tax assets	16	7,595	5,499
Total Non-current Assets		89,780	73,714
TOTAL ASSETS		132,093	125,321
LIABILITIES			
Current Liabilities			
Trade and other payables	18	49,974	53,291
Interest bearing borrowings	19	6,363	10,054
Income tax liability		3,741	2,335
Provisions	20	2,087	1,947
Total Current Liabilities		62,165	67,627
Non-current Liabilities			
Trade and other payables	18	7,277	2,782
Interest bearing borrowings	19	8,744	4,838
Provisions	20	2,250	2,630
Total Non-current Liabilities		18,271	10,250
TOTAL LIABILITIES		80,436	77,877
NET ASSETS		51,657	47,444
EQUITY			
Contributed equity	21	13,079	12,844
Retained earnings	21	35,828	31,850
Reserves	21	2,750	2,750
TOTAL EQUITY		51,657	47,444

The consolidated balance sheet should be read in conjunction with the accompanying notes.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Consolidated Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2011

	Attributable to equity holders of the parent			Total equity \$'000
	Contributed equity	Retained earnings	Employee equity benefits reserve	
	\$'000	\$'000	\$'000	
At 1 July 2009	12,844	24,183	2,750	39,777
Income and expenses recognised directly in equity	-	-	-	-
Total income / expense for the year recognised directly in equity	-	-	-	-
Profit for the year	-	7,667	-	7,667
Total comprehensive income for the year	-	7,667	-	7,667
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	-	-
Share-based payment transactions	-	-	-	-
At 30 June 2010	12,844	31,850	2,750	47,444
Income and expenses recognised directly in equity	-	-	-	-
Total income / expense for the year recognised directly in equity	-	-	-	-
Profit for the year	-	6,828	-	6,828
Total comprehensive income for the year	-	6,828	-	6,828
Transactions with owners in their capacity as owners:				
Dividends paid	-	(2,850)	-	(2,850)
Share-based payment transactions	235	-	-	235
At 30 June 2011	13,079	35,828	2,750	51,657

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Consolidated Statement of Cash Flows FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		400,846	292,887
Payments to suppliers and employees (inclusive of GST)		(376,992)	(271,767)
Interest received		627	339
Finance costs		(1,587)	(925)
Income tax (paid) / received		(3,977)	53
Net cash flows from/(used in) operating activities	8	18,917	20,587
Cash flows from investing activities			
Proceeds from sale of plant and equipment		-	64
Purchase of plant and equipment		(14,796)	(2,883)
Purchase of software		(645)	(233)
Investment in joint venture	15	(51)	-
Payments for store acquisitions	23	(5,608)	(682)
Net cash flows from/(used in) investing activities		(21,100)	(3,734)
Cash flows from financing activities			
Proceeds from borrowings		10,622	686
Repayment of borrowings		(8,447)	(13,184)
Repayment of finance lease principal		(1,956)	(1,728)
Proceeds on issue of share capital		235	
Dividends paid	7	(2,850)	-
Net cash flows from/(used in) financing activities		(2,396)	(14,226)
Net increase/(decrease) in cash and cash equivalents		(4,579)	2,627
Cash and cash equivalents at beginning of year		12,477	9,850
Cash and cash equivalents at end of year	8	7,898	12,477

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

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VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2011

1. CORPORATE INFORMATION

The financial report of Vita Group Limited (“the Company”) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of directors on 29 August 2011. Vita Group Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors’ Report.

Whilst the Group has a net current liability position, it is a going concern. The Group focuses on keeping working capital low, has appropriate funding in arrangements in place, and monitors its cash flows carefully. Interest is covered more than 18 times by operating profit and is comfortably within limits set by the Board. The Group’s forecasts and projections, taking account of possible changes in trading performance, show that the group should be able to operate within the level of its current financing. The unused facilities (as detailed in Note 19) and net cash inflows from operating activities in FY11 are sufficient to cover current borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Interpretations. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$’000) unless otherwise stated.

Comparative information has been restated where applicable to enhance comparability.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, however they have impacted the disclosures presented in the financial statements.

Changes in accounting policies

(i) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Joint Chief Executive Officers and the Board, who are responsible for allocating resources and assessing performance of the operating segments.

In prior periods, the internal reporting reported three segments, being Telecommunications, Computing and Support Services. Support Services costs were not allocated to the other two segments. As a result, there were deemed to be three reportable segments for financial statement purposes.

In the current financial period, Support Services Costs (including Group Management, Finance, Human Resources and Information Technology) were allocated to the other two segments on a user-pays basis which measured the cost of services provided based on Head Count employed in Support Services. This has therefore changed the reportable segments and resulted in only two reportable segments for financial statement purposes (being Telecommunications and Computing). Comparatives for 2010 have been restated.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Changes in accounting policies (continued)

(i) Segment reporting (continued)

The Telecommunications and Computing segments sell different products and as a result have different risk profiles. The products sold in the Telecommunications segment comprise mobile phones and related accessories as well as voice and data services through a third party service provider partner. The products sold in the Computing segment comprise laptop and desktop computers, associated accessories and peripheral equipment as well as service and rental contracts. This segment also sells limited voice and data services through a third party service provider partner (in relation to Apple mobile products).

The Group operates primarily in Australia and thus the Joint Chief Executive Officers and the Board do not consider the business from a geographic perspective.

(ii) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 29.

(iii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these changes are expected to have a significant effect on the consolidated financial statements of the Group, except for AASB9 *Financial Instruments*, which becomes mandatory from 1 January 2013 and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Vita Group Limited and its subsidiaries (the Group).

(i) Subsidiaries

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. Subsidiaries are fully consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by Vita Group Limited are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. This method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see note 23).

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(i) Subsidiaries (continued)

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(ii) Investments in jointly controlled entities

The group's investments in jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation nor has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Joint Chief Executive Officers and the Board, who are responsible for allocating resources and assessing performance of the operating segments.

In the prior periods, the internal reporting reported three segments, being Telecommunications, Computing and Support Services. Support Services costs were not allocated to the other two segments. As a result, there were deemed to be three reportable segments for financial statement purposes.

In the current financial period, Support Services costs (including Group Management, Finance, Human Resources and Information Technology) were allocated to the other two segments on a user-pays basis which measured the cost of services provided based on Head Count employed in Support Services. This has therefore changed the reportable segments and resulted in only two reportable segments for financial statement purposes (being Telecommunications and Computing). Comparatives for 2010 have been restated.

The Telecommunications and Computing segments sell different products and as a result have different risk profiles. The products sold in the Telecommunications segment comprise mobile phones and related accessories as well as voice and data services through a third party service provider partner. The products sold in the Computing segment comprise laptop and desktop computers, associated accessories and peripheral equipment as well as service and rental contracts. This segment also sells limited voice and data services through a third party service provider partner (specifically in relation to Apple mobile products).

The Group operates in Australia and thus the Joint Chief Executive Officers and the Board do not consider the business from a geographical perspective.

(e) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts assets and liabilities within the next financial year are addressed below.

Impairment of Fixed Assets

The Group carries out half-yearly re-assessments of fixed asset carrying values. Resulting adjustments are applied via an impairment adjustment in the appropriate period and result in a positive (increase) to the depreciation charge in that same period. Refer to Note 2(n) & (q), and Note 12 for further detail.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. Refer to Note 2(o) and 14 for further detail.

Impairment of intangible with finite life

The Group determines whether intangible with finite lives are impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the intangible with finite life is allocated. Refer to Note 2(p) for further detail.

Lease-make good

The Group estimates its liability to provide for the restoration of leased premises by reference to historical data and by specific estimates on a premise-by-premise basis.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Sale of warranty products

Consideration received is recognised over the period each component is provided.

Fees

Fee income from the telecommunications provider is recognised when a customer contracts to an eligible plan with the telecommunications provider using the Group as an agent for the telecommunications provider.

Commissions

To November 2009, ongoing commissions payable were recognised based on eligible monthly billings made by the telecommunications provider to the end customer over the life of the plan where the Group was the agent of the telecommunications provider in selling the plan to the customer. From November 2009, these ongoing commissions have been replaced by a higher upfront incentive paid on selling the plan to the customer.

Cooperative Advertising

Revenue is recognised either as a set percentage of purchases in accordance with supplier trading terms or as negotiated for specific advertising activity, adjusted for the assessed likelihood of a successful claim.

Finance revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Finance costs

Expense is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount of the financial liability.

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a rights to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are amortised over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments, which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Incentives for entering into operating leases are recognised evenly over the term of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

(i) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts that are repayable on demand and form an integral part of the cash management of the group. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for on a first in, first out (FIFO) basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(l) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(m) Current and deferred income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences, using the liability method, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Current and deferred income tax and other taxes (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Vita Group Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2004. The head entity, Vita Group Limited and the controlled entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Vita Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

Assets or liabilities arising under tax funding agreements with the tax-consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 5.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax-consolidated entities.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation is calculated over the estimated useful life of the assets as follows:

	Telecommunications	Computing
Plant and equipment	Diminishing value 20 %-40 %	Straight line over 4 to 5 years
Plant and equipment under lease	Straight line over 3 to 5 years	Straight line over 3 to 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year-end.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are then written down to their recoverable amount.

Derecognition

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(o) Goodwill

Goodwill acquired on a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that are expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. This impairment loss is recorded in Other Expenses.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement in the expense category 'depreciation and amortisation'.

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition of the development expenditure, the cost model is applied.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

Accounting Method	Customer Database	Software
Useful lives	Finite	Finite
Method used	2 years – straight line	2 ½ years – straight line
Internally generated / acquired	Acquired	Acquired
Impairment test / recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(q) Impairment of non-financial assets, other than goodwill

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(r) Trade and other payables

Trade and other payables are carried at original invoice amount and represent liabilities for goods and services provided to the Group to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. These amounts are unsecured and are paid within terms ranging from 14 to 90 days from recognition.

(s) Interest – bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Interest –bearing loans and borrowings (continued)

Borrowing costs

Borrowing costs are recognised as an expense when incurred. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(u) Employee Benefits

(i) Wages, salaries, annual leave

Liabilities for wages and salaries including non-monetary benefits, expected to be settled within 12 months of the reporting period are recognised in other payables and accruals in respect of employees' services up to the reporting date. Liabilities for annual leave expected to be settled within 12 months of the reporting period are recognised in provision for employee benefits in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulated sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long Service Leave

Liabilities for long service leave are recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

(iv) Bonus plans

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(v) Share-based payment transactions

The Group provides benefits to employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently the Employee Share Option Plan ('ESOP') in place to provide these benefits to senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. An external valuer using a binomial model determines the fair value.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Share-based payment transactions (continued)

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Vita Group Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

- (i) the extent to which the vesting period has expired and
- (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met, as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is forfeited, it is treated as if it had not vested on the date of forfeiture. However, if a new award is substituted for the forfeited award, and designated as a replacement award on the date that it is granted, the forfeited and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(w) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are only purchased when required to satisfy the Board's policy that all options exercised will be satisfied by the purchase of shares on-market. They are purchased in the recipient's name.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance dates.

(y) Earnings per share

Basic earnings per share are calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

3. SEGMENT REPORTING

(a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Joint Chief Executive Officers and the Board, who are responsible for allocating resources and assessing performance of the operating segments

In prior periods, the internal reporting reported three segments, being Telecommunications, Computing and Support Services. Support Services costs were not allocated to the other two segments. As a result, there were deemed to be three reportable segments for financial statement purposes. In the current financial period, Support Services costs (including Group Management, Finance, Human Resources and Information Technology) were allocated to the other two segments. This has therefore changed the reportable segments and resulted in only two reportable segments for financial statement purposes (being Telecommunications and Computing). Comparatives for 2010 have been restated.

The Telecommunications and Computing segments sell different products and as a result have different risk profiles. The products sold in the Telecommunications segment comprise mobile phones and related accessories as well as voice and data services through a third party service provider partner. The products sold in the Computing segment comprise laptop and desktop computers, associated accessories and peripheral equipment as well as service and rental contracts. This segment also sells limited voice and data services through a third party service provider partner (specifically in relation to Apple mobile products).

The Group operates in Australia and thus the Joint Chief Executive Officers and the Board do not consider the business from a geographical perspective.

(b) Segment information provided to the Joint Chief Executive Officers and the Board

The segment information provided to the Joint Chief Executive Officers and the Board for the reportable segments for the year ended 30 June 2011 is as follows:

	Telecommunications \$'000	Computing \$'000	Total Operations \$'000
2011			
Revenue			
Sales of goods	188,281	134,672	322,953
Fee income / Commission	62,878	1,060	63,938
Total segment revenue	251,159	135,732	386,891
Inter-segment revenue	-	-	-
Revenue from external customers	251,159	135,732	386,891
EBITDA	19,202	(674)	18,528
Depreciation and amortisation	6,210	961	7,171
Allocated Income tax expense	3,302	(108)	3,194
2010			
Revenue			
Sales of goods	117,003	122,436	239,439
Fee income / Commission	52,224	-	52,224
Total segment revenue	169,227	122,436	291,663
Inter-segment revenue	-	-	-
Revenue from external customers	169,227	122,436	291,663
EBITDA	17,513	1,661	19,174
Impairment of plant and equipment	853	196	1,049
Depreciation and amortisation	4,510	1,124	5,634
Allocated Income tax expense	2,875	274	3,149

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

3. SEGMENT REPORTING (continued)

The Board assesses the performance of the operating segments based on EBITDA. No reporting is currently provided to the Board with respect to total segment assets or liabilities as these items are managed at a consolidated Group level only. The amounts disclosed for total segment assets are an allocation of total consolidated assets based on the operations of the segments and the physical locations of assets.

(c) Other segment information

(i) Segment revenue

The revenue from external parties reported to the Joint Chief Executive Officers and the Board is measured in a manner consistent with that in the Statement of Comprehensive Income. Revenues from external customers are derived from the sale of telecommunications and computing products and services as defined in Note 3(a). A summary of revenue across these product areas is shown below:

	2011 \$'000	2010 \$'000
Telecommunications products	251,159	169,227
Computing products	135,732	122,436
Total segment revenue	386,891	291,663

Segment revenue reconciles to total revenue from continuing operations as follows:

	2011 \$'000	2010 \$'000
Total segment revenue	386,891	291,663
Total revenue from continuing operations (note 4 (a))	386,891	291,663

(ii) EBITDA

A reconciliation of EBITDA to operating profit before income tax is provided as follows:

	2011 \$'000	2010 \$'000
EBITDA	18,528	19,174
Interest revenue	627	339
Finance costs	(1,682)	(2,014)
Depreciation, amortisation and impairment charges	(7,171)	(6,683)
Share of loss from investment in joint venture	(280)	-
Profit before income tax from continuing operations	10,022	10,816

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

3. SEGMENT REPORTING (continued)

(iii) Segment assets

No reporting is currently provided to the Joint Chief Executive Officers and the Board with respect to total segment assets as these items are managed at a consolidated Group level only. The amounts disclosed for total segment assets are an allocation of total consolidated assets based on the operations of the segments and the physical locations of assets. The 2010 comparative has been restated to match the classifications applied to the 2011 disclosure.

Reportable segments' assets are reconciled to total assets as follows:

	2011 \$'000	2010 \$'000
Telecommunications	80,431	64,990
Computing	51,662	60,331
Total assets as per the Balance Sheet	132,093	125,321

(iv) Segment liabilities

No reporting is currently provided to the Joint Chief Executive Officers and the Board with respect to total segment liabilities as these items are managed at a consolidated Group level only.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
4. REVENUE AND EXPENSES			
Revenue and Expenses			
(a) Revenue			
Sale of goods		322,953	239,439
Fee and Commission revenue		63,938	52,224
		386,891	291,663
(b) Other income			
Cooperative marketing revenue		6,014	3,842
Other miscellaneous income		606	528
		6,620	4,370
(c) Net finance costs			
Bank loans		205	524
Finance charges under finance leases		685	314
Finance charges under hire purchase contracts		124	37
Provisions: unwinding of discount		94	152
Line facility fee		498	937
Other interest expense		76	50
Total finance costs		1,682	2,014
Interest revenue on bank deposits		(627)	(339)
Finance income		(627)	(339)
Net finance costs		1,055	1,675
(d) Depreciation, amortisation and impairment charges			
Depreciation of plant and equipment	12	5,015	3,690
Amortisation of plant and equipment under lease	12	1,572	1,645
Amortisation of intangibles	13	286	299
Impairment of plant and equipment	12	298	1,049
		7,171	6,683
(e) Employment expenses			
Wages and salaries		66,140	50,327
Defined contribution superannuation expense		5,183	3,983
Employee entitlements		4,364	3,067
		75,687	57,377
(f) Operating lease rental expenses			
Minimum lease payments – operating lease		16,936	15,613

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
5. INCOME TAX		
Income tax expense		
The major components of income tax expense are:		
<i>Income statement</i>		
<i>Current income tax</i>		
Current income tax charge	5,334	3,863
Adjustments for current tax of prior periods	50	96
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences (note 16)	(2,190)	(810)
Income tax expense reported in the income statement	<u>3,194</u>	<u>3,149</u>
A reconciliation between tax expense and the profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Profit before income tax	<u>10,022</u>	<u>10,816</u>
At the Group's statutory income tax rate of 30% (2010: 30%)	3,007	3,245
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Accounting expenses not assessable for income tax purposes	<u>137</u>	<u>(192)</u>
	3,144	3,053
Adjustments for current tax of prior periods	<u>50</u>	<u>96</u>
Aggregate income tax expense	<u>3,194</u>	<u>3,149</u>

Tax consolidation

Vita Group Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 2 November 2005. Vita Group Limited is the head entity of the tax-consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

Members of the tax-consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 *Income Taxes*. Allocations under the tax funding agreement are made at the end of each quarter.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated group head company, Vita Group Limited.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

6. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2011 \$'000	2010 \$'000
Net profit attributable to ordinary equity holders of the parent	6,828	7,667
	2011 Thousands	2010 Thousands
Weighted average number of ordinary shares for basic earnings per share	142,316	141,248
Effect of dilution: Share options	-	326
Weighted average number of ordinary shares adjusted for the effect of dilution	142,316	141,574
	2011 \$'000	2010 \$'000

7. DIVIDENDS PAID AND PROPOSED

(a) Declared and paid during the year:

Interim franked dividend for 2011 of 2 cents per share paid on 11 April 2011 (2010: Nil)	2,850	-
	2,850	-

(b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year-end the directors have approved the payment of a final dividend 1.1 cents per share (2010: nil), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid in October 2011 out of retained earnings at 30 June 2011, but not recognised as a liability at year end, is \$1,588,773.

1,589	-
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(c) Franked dividends

The franked portions of the final dividends approved after 30 June 2011 will be franked out of existing franking credits or franking credits arising from the payment of income tax in the year ending 30 June 2012.

Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)

31,081	26,903
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The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- a) Franking credits that will arise from the payment of provision for income tax
- b) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- c) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

The impact on the franking account of the dividend approved by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$680,903 (2010: nil).

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$'000	\$'000
8. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	7,898	12,477
Reconciliation of net profit after tax to net cash flows from operations		
Net profit/(loss)	6,828	7,667
<i>Adjustments for:</i>		
Depreciation	5,015	3,690
Amortisation	1,858	1,944
Impairment adjustment of non-current assets	298	1,142
Net loss on disposal of plant and equipment	-	(29)
Make good provision: unwinding of discount	94	152
Doubtful debt provision	247	688
Inventory obsolescence provision	7	(110)
Make good provision	(518)	(543)
Share of losses of joint venture	280	-
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	1,105	(2,722)
(Increase)/decrease in inventory	2,691	(4,437)
Decrease/(increase) in prepayments	833	(347)
(Increase)/decrease in deferred tax assets	(2,189)	(761)
Increase/(decrease) in current tax liability	1,406	3,907
Increase in trade, other payables and accruals	(6,785)	10,519
Increase/(decrease) in unearned revenue	7,308	(108)
Increase in provisions	439	(65)
Net cash flow from operating activities	18,917	20,587

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
9. TRADE AND OTHER RECEIVABLES		
Trade receivables (i)	21,352	22,745
Allowance for doubtful debts	(1,971)	(2,005)
	19,381	20,740
Other receivables	1,785	2,032
Prepayments	978	1,815
	22,144	24,587

(i) Trade receivables are non-interest bearing. They include an assessment of amounts owing by Telstra as well as regular debtors. These receivables are generally on terms ranging from 30 to 90 days, however, Telstra claims can take up to 12 months to finalise.

Allowance for doubtful debts

As at 30 June 2011 current trade receivables of the Group with a nominal value of \$1,971,467 (2010: \$2,005,518) were impaired. The amount of the provision was \$1,971,467 (2010: \$2,005,518). An allowance for doubtful debts is made when there is objective evidence that a receivable is impaired. The amount of the allowance has been measured as the difference between the carrying amount of the receivables and the estimated future cash flows expected to be received from the relevant debtor.

The ageing of these receivables is as follows:

+91 days	1,971	2,005
Balance at 30 June	1,971	2,005

Movements in provision for doubtful debts were as follows:

At 1 July	2,005	1,317
Charge/(release) for the year	247	688
Amounts written off	(281)	-
Balance at 30 June	1,971	2,005

As of 30 June 2011, trade receivables of \$473,240 (2010: \$2,201,492) were past due by more than 61 days but not impaired. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full. There is not considered to be any additional credit risk relating to the Telstra specific debtors.

The ageing analysis of these receivables is as follows:

61-90 days	44	202
91+ days	429	1,999
Balance at 30 June	473	2,201

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of the receivable. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purposes entities.

Interest rate risk

Detail regarding interest rate risk exposure is disclosed in note 22.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
10. INVENTORIES		
Finished goods	12,439	14,686
Provision for diminution in value	(168)	(143)
	12,271	14,543
Total inventories at the lower of cost or net realisable value		
Inventories recognised as an expense for the year ended 30 June 2011 totalled \$244,767,346 (2010: \$179,679,934) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.		
Inventory write-downs recognised as an expense totalled \$7,287 (2010: \$98,539) for the Group.		
11. TERM DEPOSITS		
Term deposits	118	113
The term deposits are held as security over bank guarantees and are held for the duration of the guarantee to which they relate. The interest rate on term deposits is 4.5 % (2010: 4.3 %).		
12. PLANT AND EQUIPMENT		
Plant and equipment under lease	8,204	10,279
Accumulated amortisation and impairment	(2,220)	(4,504)
	5,984	5,775
Plant and equipment	40,710	36,517
Accumulated depreciation and impairment	(22,416)	(28,690)
	18,294	7,827
Total plant and equipment – at cost	48,914	46,796
Accumulated amortisation, depreciation and impairment	(24,636)	(33,194)
	24,278	13,602
Plant and equipment under lease		
At 1 July, net of accumulated amortisation and impairment	5,775	3,833
Additions	3,810	3,973
Disposals	(1)	(25)
Transfer to plant and equipment	(2,024)	(155)
Amortisation charge for the year	(1,572)	(1,645)
Impairment	(4)	(206)
	5,984	5,775
At 30 June, net of accumulated amortisation and impairment		
Plant and equipment		
At 1 July, net of accumulated depreciation and impairment	7,827	8,418
Additions	11,722	3,823
Disposals	-	(116)
Additions through the acquisition of entities/businesses	2,030	80
Transfer from plant and equipment under lease	2,024	155
Depreciation charge for the year	(5,015)	(3,690)
Impairment	(294)	(843)
	18,294	7,827
At 30 June, net of accumulated depreciation and impairment		

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

12. PLANT AND EQUIPMENT (continued)

Leased assets and assets under hire purchase agreements are pledged as security for the related finance lease and hire purchase liabilities.

Additions during the year of \$3,809,224 (2010: \$3,973,177) of plant and equipment were financed under finance lease agreements.

Additions to the lease make good asset recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* during 2011 were \$851,736 (2010: \$881,489). This amount is offset by the corresponding provision for make good in note 20 Provisions.

Impairment of plant and equipment

An assessment of the recoverable amount of plant and equipment, based on value in use and determined at the cash-generating unit level, resulted in certain items being reduced to this carrying value.

In the 2010 year this impairment resulted from further strategic store optimisation review including reassessment of stores to be closed, relocated or refurbished. The value impaired/(written back) reflects the net written down value of specific items of plant and equipment that would be disposed of as part of this program or that are no longer required to be impaired based on current adjusted plans. As all of these closures, relocations and refurbishments are to be actioned within the next financial year, no discount rate has been applied.

	2011 \$'000	2010 \$'000
13. INTANGIBLE ASSETS AND GOODWILL		
Customer database	720	720
Accumulated amortisation	(720)	(720)
	-	-
Software	4,023	3,557
Accumulated amortisation	(3,417)	(3,310)
	606	247
Goodwill	64,585	61,655
Accumulated amortisation	(7,402)	(7,402)
	57,183	54,253
Customer database, software and goodwill	69,328	65,932
Accumulated amortisation	(11,539)	(11,432)
	57,789	54,500
<i>Software</i>		
At 1 July net of accumulated amortisation	247	312
Additions through store acquisitions	-	2
Additions	645	232
Amortisation charge for the year	(286)	(299)
At 30 June net of accumulated amortisation	606	247
<i>Goodwill</i>		
At 1 July net of accumulated amortisation	54,253	54,087
Additions through store acquisitions (Note 23)	2,930	166
At 30 June net of accumulated amortisation	57,183	54,253
Total	57,789	54,500

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

14. IMPAIRMENT TESTING OF GOODWILL

a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units, defined as the Telecommunications and Computing business segments being the lowest levels at which cash flows can be independently ascertained for the purposes of discounting future cash flows.

	2011 \$'000	2010 \$'000
Carrying amount of goodwill allocated to each of the cash generating units:		
Telecommunications	23,372	20,442
Computing	33,811	33,811
	<u>57,183</u>	<u>54,253</u>

b) Key assumptions used for value-in-use calculations

The recoverable amount of the cash generating units has been determined based on value-in-use calculations. These calculations use financial budgets established for the next financial year and management cash flow projections for subsequent years based on past experience and expectations for the future. Cash flows beyond the five-year period are extrapolated using a 2% growth rate, which does not exceed the long-term average growth rate for the Telecommunications and Computing businesses.

For both cash generating units, recoverable amount exceeds the asset carrying value.

	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
	Telecommunications		Computing	
Cash flow projections for the 5 year period use implied compound annual growth rates as follows:				
Revenue	5.0%	5.0%	5.0%	8.0%
Cost of goods sold	5.0%	5.0%	3.9%	6.0%
Operating expenses	5.0%	5.0%	3.8%	2.9%
Pre tax discount rate	15.4%	16.8%	15.4%	16.8%

c) Sensitivity to changes in assumptions

Management recognises that the calculation of recoverable amount can vary based on the assumptions used to project or discount cash flows and that changes in key assumptions can result in recoverable amount falling below carrying amounts.

In relation to the Telecoms division, the recoverable amount is well in excess of the carrying amount associated with the segment and management believe that any reasonably possible changes in assumptions would not result in recoverable amount falling below carrying value.

With regard to Computing, the recoverable amount is sensitive to material changes in earnings projections from the segment. The cash flow projections imply an improvement in future year earnings from a modest base and if earnings projections were to reduce by 36% in all future years, the recoverable amount would equate to the carrying value of assets in the segment. Management believe that other reasonably possible changes in assumptions would not result in recoverable amount falling below carrying value.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

15. INVESTMENTS IN JOINT VENTURES

The Group's share of loss in its equity-accounted investments for the year was (\$279,676) (2010: nil). The Group did not receive any dividends from its equity-accounted investment during the year. Square [i] Solutions International Limited joint venture was established during the year to distribute television and computer services to hospitality clients.

Square [i] Solutions International Limited
(ownership interest 50%)

	2011	2010
	\$'000	\$'000
Share of joint venture's assets and liabilities		
Current assets	20	-
Non-current assets	50	-
Total assets	<u>70</u>	<u>-</u>
Current liabilities	(36)	-
Non-current liabilities	(262)	-
Total liabilities	<u>(298)</u>	<u>-</u>
Net assets	<u>(228)</u>	<u>-</u>
Share of joint venture's revenue, expenses and results		
Income	2	-
Expenses	(282)	-
Profit/ (loss)	<u>(280)</u>	<u>-</u>
Interest in joint venture		
Investment in joint venture	51	-
Share of (loss) from investment in joint venture	(51)	-
Balance 30 June	<u>-</u>	<u>-</u>
Receivables from joint venture		
Balance 1 July	-	-
Loans advanced to investments in joint venture	228	-
Share of (loss) from investment in joint venture (includes cash advances to and payments made on behalf of joint ventures)	(228)	-
Balance 30 June	<u>-</u>	<u>-</u>
Share of joint venture's capital commitments	<u>-</u>	<u>-</u>

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
16. DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
Trade and other receivables	115	121
Inventory	125	100
Trade and other payables	1,163	669
Finance lease liability	1,831	1,993
Provision employee benefits	1,402	1,272
Lease provision	976	918
Unearned revenue	4,143	1,855
Total deferred tax assets	9,755	6,928
Set-off of deferred tax liabilities pursuant to set-off provisions:		
Property, plant and equipment	(2,160)	(1,429)
	7,595	5,499
Net deferred tax assets	7,595	5,499
Deferred tax assets expected to be recovered within 12 months	6,644	5,411
Deferred tax assets expected to be recovered after more than 12 months	3,111	1,517
Deferred tax liabilities expected to be recovered after more than 12 months	(2,160)	(1,429)
	7,595	5,499
Movement in deferred tax assets		
At 1 July	5,499	4,943
Credited to profit or loss (note 5)	2,190	810
Acquisition of Telstra Licensed stores (note 23)	(94)	(254)
At 30 June	7,595	5,499

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

17. SHARE BASED PAYMENT PLAN

Employee Share Option Plan

On 2 November 2005 share options were granted to senior executives under the Employee Share Option Plan and the exercise price is \$0.1876 per option. The vesting conditions for the options granted relate to the employment status of the grantee as well as the discretion of the directors to accelerate the vesting timelines.

The contractual life of each option granted is five years.

No expense was recognised in the income statement in relation to share-based payments for the current year.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2011 No.	2011 WAEP (cents)	2010 No.	2010 WAEP (cents)
Outstanding at the beginning of the year	1,252,000	18.76	1,565,000	18.76
Exercised during the year	(1,252,000)	18.76	-	-
Forfeited during the year	-	-	(313,000)	18.76
Outstanding at the end of the year	-	-	1,252,000	18.76

The outstanding balance as at 30 June 2010 is represented by:

- 417,333 options over ordinary shares with an exercise price of \$0.1876 each, exercisable on 2 November 2006 and until 2 November 2010;
- 417,334 options over ordinary shares with an exercise price of \$0.1876 each, exercisable on 2 November 2007 and until 2 November 2010; and
- 417,333 options over ordinary shares with an exercise price of \$0.1876 each, exercisable on 2 November 2008 and until 2 November 2010.
- Due to the resignation of the holder of these options (Darren Gaunt: resignation date 23 June 2010) these were exercisable by 23 August 2010.

The exercise price for options outstanding at the end of the 2010 year was \$0.1876.

Employee Bonus Share Plan

The Remuneration and Nomination Committee is responsible for reviewing the operation of the group's Employee Bonus Share Plan which was approved by the board on 4 April 2005.

This share plan has been established by the company to enable employees to acquire shares in the company up to the value of \$1,000, depending on length of service.

The Remuneration and Nomination Committee of the company administer the plan. The committee may from time to time issue offers on behalf of the company to employees. These employees may apply to acquire the number of shares specified in the invitation. The initial value of the shares to Australian tax residents is intended to be free of income tax (under current tax laws) provided the requisite tax election is made.

The company may acquire shares for participants by way of an issue of shares, by acquiring shares in the ordinary course of trading, or by off-market purchases. The company may issue shares for no consideration. The board may also decide that an offer will involve a salary sacrifice.

Participants are prevented from disposing of shares acquired under the plan until the earlier of:

- three years after the date of acquisition of the shares; or
- the day after the date on which the participant ceased, or first ceased, to be employed by the company because of death or other special circumstances.

The number of shares acquired during the previous five years from new issues by the company under the plan and all other employee share schemes established by the company must not exceed 5% of the total number of issued shares.

Shares will rank equally with all existing shares on and from the date of issue.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

17. SHARE BASED PAYMENT PLAN (continued)

The Remuneration and Nomination Committee has power to terminate or suspend the operation of the plan at any time, provided that the termination or suspension does not adversely affect or prejudice the rights of participants holding shares at that time.

Directors are eligible to participate in the plan, but, under Listing Rule 10.14, Shareholders must approve any allocations to directors.

During the financial year the company did not issue ordinary shares under this plan (2010: \$nil).

	2011 \$'000	2010 \$'000
18. TRADE AND OTHER PAYABLES		
<i>Current</i>		
Trade payables (i)	26,677	38,226
Unearned revenue	8,242	4,271
Annual leave accrual	3,591	2,723
Other payables and accruals	11,464	8,071
	49,974	53,291
<i>Non-current</i>		
Unearned revenue	5,567	1,914
Other payables and accruals	1,710	868
	7,277	2,782

(i) Trade payables are non-interest bearing and are normally settled on terms ranging from 14 to 90 days.

Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Interest rate and liquidity risk

Information regarding interest rate and liquidity risk exposure is set out in note 22.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	Maturity	2011 \$'000	2010 \$'000
19. INTEREST BEARING LOANS AND BORROWINGS			
Current			
Bank overdraft (iii)		3,118	-
Obligations under finance leases (i)	2012	1,654	2,168
Obligations under hire purchase contracts (i)	2012	1,591	194
Commercial bills (ii)	2011	-	7,692
		6,363	10,054
Non-Current			
Obligations under finance leases (i)	2013-2016	4,448	4,408
Obligations under hire purchase contracts (i)	2013-2016	4,296	430
		8,744	4,838
		15,107	14,892

(i) Finance leases

The finance leases and hire purchase contracts are secured by a charge over the specific assets being financed. The assets under finance lease are disclosed in note 12.

(ii) Commercial bills

The commercial bills have been drawn under an amortising facility with a quarterly repayment schedule. The interest rate and facility fees total nil (2010: 10.3%).

(iii) Bank overdraft

The interest rate and facility fee charged on the bank overdraft is 7.33% (2010: Nil).

The Group's loan and lease facilities are secured under the Group's Deed of Cross Guarantee, which is detailed in Note 25(iii).

Fair values

Unless disclosed below, the carrying amount of the group's current and non-current borrowings approximate their fair value. The fair values have been calculated by discounting the expected future cash flows at prevailing market interest rates varying from 8.0% to 9.0% (2010: 8.0% to 9.0%), depending on the type of borrowing.

	Carrying amount		Fair value	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Bank overdraft	3,118	-	3,118	-
Obligations under finance leases and hire purchase contracts	11,989	7,200	9,920	5,975
Commercial bills	-	7,692	-	7,692
	15,107	14,892	13,038	13,667

Interest rate and liquidity risk

Details regarding interest rate and liquidity risk are disclosed in note 22.

Financial facilities

The Group has established facilities with the Australia and New Zealand Banking Group Limited that are secured by a first registered mortgage debenture over Vita Group Limited and its subsidiaries and an interlocking guarantee and indemnity given by Vita Group Limited and its subsidiaries. In addition the facilities are subject to financial and reporting covenants.

At balance date, the Group has available approximately \$17.5 million (2010: \$4.6 million) of unused master asset finance facilities available for its immediate use.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
20. PROVISIONS		
Provision for employee benefits	1,083	1,515
Make good provision (a)	3,254	3,062
	4,337	4,577
<i>Current</i>		
Provision for employee benefits	352	295
Make good provision	1,735	1,652
	2,087	1,947
<i>Non-current</i>		
Provision for employee benefits	731	1,220
Make good provision	1,519	1,410
	2,250	2,630
Make good provision		
At 1 July 2010	3,062	2,543
Charged/ (credited) to income statement:		
Additional provisions	1,028	910
Unwinding of discount	94	152
Utilised during the year	(930)	(543)
At 30 June 2011	3,254	3,062

(a) Make good Provision

VITA Group Limited is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms and the best estimate of onerous lease obligations. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets. Assumptions used to calculate the provision were based on current assessments of the timing of the restoration liability crystallising and on current restoration costs being accreted at rates of 2.1% to 3.6% (2010: 1.5% to 5.0%).

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$'000	2010 \$'000
21. CONTRIBUTED EQUITY, RETAINED EARNINGS AND RESERVES		
<i>Contributed equity</i>		
Ordinary shares		
Issued and fully paid	13,079	12,844

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

	Number of shares	\$'000
At 1 July 2009	141,247,800	12,844
Treasury shares bought from the market	-	-
Ordinary shares issued for options exercised	-	-
At 30 June 2010	141,247,800	12,844
Treasury shares bought from the market	-	-
Ordinary shares issued for options exercised	1,252,000	235
At 30 June 2011	142,499,800	13,079

Share options

The group has a share based payment option scheme under which the options to subscribe for the company's shares have been granted to certain executives (refer note 17).

Reverse acquisition

On 2 November 2005, VITA Group Limited (formerly known as Fone Zone Group Limited) acquired 100% of the voting shares of Fone Zone Pty Ltd, an unlisted Company based in Australia specialising in the communications retail and service industry.

AASB 3 *Business Combinations* requires an acquirer in a business combination to be identified. With respect to the acquisition of Fone Zone Pty Ltd by Fone Zone Group Limited, Fone Zone Pty Ltd was identified as the acquirer given the following factors:

- The economic substance of the transaction;
- Fone Zone Group Limited was established solely for the purposes of acquiring Fone Zone Pty Ltd;
- Fone Zone Group Limited has no business activity;
- The transaction was driven by Fone Zone Pty Ltd, not Fone Zone Group Limited; and
- The existing management of Fone Zone Pty Ltd will manage Fone Zone Group Limited.

As Fone Zone Pty Ltd has been identified as the acquirer, the concept of "reverse acquisition accounting" was applied to this transaction and accordingly there was no requirement to "fair value" the asset values of the subsidiary or to recognise goodwill based on the fair value of the purchase consideration. At the date of acquisition, Fone Zone Group Limited was a non-operating company that had a net asset value of \$6.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

21. CONTRIBUTED EQUITY, RETAINED EARNINGS AND RESERVES (continued)

	2011 \$'000	2010 \$'000
Retained earnings		
Movements in retained earnings were as follows:		
Balance 1 July	31,850	24,183
Net profit for the year	6,828	7,667
Dividends	(2,850)	-
	35,828	31,850
Employee equity benefits reserve		
Movements in employee equity benefits reserve were as follows:		
Balance 1 July	2,750	2,750
	2,750	2,750

Nature and purpose of reserve

Employee equity benefits reserve

The reserve is used to record the value of equity benefits provided to employees as part of their remuneration.

Capital Management

When managing capital, the board's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Directors also aim to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Directors monitor the capital structure of the Group to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the Directors may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2011, dividends of \$2,849,996 were paid to shareholders (2010: \$nil).

The group has no current plans to issue further shares on the market, or to reduce the capital structure.

Capital is monitored through a net debt / (net debt plus equity) ratio. The current target for the Group's net debt / (net debt plus equity) ratio is below 50%. The ratios based on continuing operations at 30 June 2011 and 2010 were as follows:

	2011 \$'000	2010 \$'000
Total borrowings *	15,107	14,892
Less cash and cash equivalents	(7,898)	(12,477)
Net debt	7,209	2,415
Total equity	51,657	47,444
Net debt plus equity	58,866	49,859
Net debt / (Net debt plus equity) ratio	12.2%	4.8%

* Comprises interest bearing loans and borrowings

The Group is not subject to any externally imposed capital requirements.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise commercial bills, finance leases and hire purchase contracts, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group is not exposed to foreign exchange or commodity and equity price risks.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate and the Group's policy is to manage its interest cost using a mix of the financial instruments described above. The level of debt is disclosed in note 19.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated as cash flow hedges:

	2011 \$'000	2010 \$'000
Financial Assets		
Cash	7,898	12,477
Term deposits	118	113
	<u>8,016</u>	<u>12,590</u>
Financial Liabilities		
Bank overdraft	(3,118)	-
Commercial bills	-	(7,692)
	<u>(3,118)</u>	<u>(7,692)</u>
Net Asset / Exposure	<u>4,898</u>	<u>4,898</u>

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	2011 \$'000	2010 \$'000
Judgements of reasonably possible movements:		
+1 % (100 basis points)	50	15
- 1 % (100 basis points)	(50)	(15)

These movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised, creditworthy third parties and it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and risk limits are set for each individual customer in accordance with the Group's policies.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The accounts receivable of the Group is predominantly represented by amounts owed by the Dealership Principal (of the Fone Zone operations of the Group), namely Telstra Corporation Limited, and the level of credit risk on the account is considered to be low. There are no other significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitize its trade and other receivables.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayment and interest resulting from recognised financial assets and liabilities as at 30 June 2011. No derivative financial instruments are held and for other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2011.

The remaining contractual maturities of the Group's financial liabilities are:

	2010	2010
	\$'000	\$'000
1 year or less	29,922	40,714
1-5 years	8,745	5,610
Over 5 years	-	-
	38,667	46,324

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

23. BUSINESS COMBINATIONS

Fone Zone Pty Limited acquired the license and related net business assets to operate the Telstra Licensed stores:

1 July 2010	Shellharbour Telstra Licensed Store
19 July 2010	Goulburn Telstra Licensed Store
30 July 2010	Orange Telstra Licensed Store
1 August 2010	Gungahlin Telstra Licensed Store
1 August 2010	Dandenong Telstra Licensed Store
1 October 2010	Two Townsville Telstra Licensed Stores and a Townsville Telstra Business Centre
1 December 2010	Mt Ommaney Telstra Licensed Store
1 March 2011	Wynnum Telstra Licensed Store
1 April 2011	Dapto Telstra Licensed Store
1 April 2011	Warrawong Telstra Licensed Store
1 April 2011	Batemans Bay Licensed Store
1 May 2011	Bowral Licensed Store
1 May 2011	Nowra Telstra Licensed Store
1 May 2011	Nowra Telstra Business Centre

Details of net assets acquired and goodwill are as follows:

	<u>\$'000</u>
Purchase consideration:	
Cash paid	5,608
Total purchase consideration	<u>5,608</u>
	Fair Value
	\$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventories	426
Plant and equipment	2,030
Receivables	316
Net deferred tax assets / (liabilities)	<u>(94)</u>
Net identifiable assets acquired	2,678
Add: Goodwill	<u>2,930</u>
	5,608
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	<u>5,608</u>
	5,608

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

23. BUSINESS COMBINATIONS (continued)

Acquisition related costs

Acquisition-related costs of \$1,425 are included in administration expenses in the statement of comprehensive income.

Contingent consideration

There are no contingent consideration arrangements in relation to these business combinations.

Acquired receivables

The fair value of trade and other receivables is \$315,878 and includes an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$315,878. The gross contractual amount for the interest in future trailing income is estimated at \$315,878, of which \$nil is expected to be uncollectible.

*Revenue and profit contribution**

The acquired businesses contributed revenues of \$35,966,783 and EBITDA of \$4,674,771 to the group for the period from acquisition date to 30 June 2011.

On the basis of trading results from the date of acquisition to end of financial year, had the businesses been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$52,885,298 and \$6,128,460 respectively.

*EBITDA has been stated in the place of NPAT for business combinations revenue and profit contribution as depreciation, finance costs and income tax are attributed only to the Consolidated/Parent entity and are not calculated at an individual Store level.

	2011 \$'000	2010 \$'000
Cash flow information		
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	5,608	657
Acquisition-related costs	1	53
	5,609	710
Less: Balances acquired		
Cash	-	-
Bank Overdraft	-	-
	5,609	710
	5,609	710

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

24. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain computer and office equipment and rental of store outlets and head office premises. These leases have an average life of between 1 and 5 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2011 \$'000	2010 \$'000
Within one year	9,188	8,051
After one year but not more than five years	21,107	18,319
More than five years	1,264	5,250
	31,559	31,620

b) Finance lease commitments

The Group has finance leases for various items of plant and equipment with a carrying amount of \$5,983,686 (2010: \$5,775,315). These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases contracts are as follows:

Within one year	2,132	2,603
After one year but not more than five years	4,903	4,903
Total minimum lease payments	7,035	7,506
Less amounts representing finance charges	(933)	(939)
Present value of minimum lease payments	6,102	6,567

c) Other Loan Commitments

The Group has hire purchases contracts for various items of plant and equipment.

Future minimum payments under the hire purchases contracts are as follows:

Within one year	2,063	246
After one year but not more than five years	4,821	496
Total minimum lease payments	6,884	742
Less amounts representing finance charges	(997)	(118)
Present value of minimum lease payments	5,887	624

d) Capital Commitments

There were \$909,108 of capital commitments as at reporting date (2010: \$1,537,363). In respect of the Group's interest in a joint venture, the joint venture is not committed to incur capital expenditure as at reporting date.

e) Contingencies

Guarantees

The Group has guarantees in relation to leasing commitments as well as other supplier arrangements. The guarantees held by the parent are held on behalf of other group entities.

Guarantees held for:

Leasing commitments	14,056	2,920
Other supplier arrangements	14,000	4,000
	28,056	6,920

There were no other contingencies as at reporting date (2010 - \$nil).

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

25. RELATED PARTY DISCLOSURES

(i) Controlled Entities

The consolidated financial statements include the financial statements of Vita Group Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	Percentage of Equity Interest Held		Investment	
		2011 %	2010 %	2011 \$'000	2010 \$'000
Fone Zone Pty Ltd	Australia	100	100	13,938	13,938
Communique Holdings Pty Ltd	Australia	100	100	5,355	5,355
Next Byte Holdings Pty Ltd (As trustee for Next Byte Unit Trust)	Australia	100	100	31,796	31,796
Vita People Pty Ltd	Australia	100	100	-	-
The Learning Academy Pty Ltd	Australia	100	100	-	-
Total investments in controlled entities – at cost				51,089	51,089
<i>Subsidiaries of Fone Zone Pty Ltd:</i>					
Fone Zone Queensland Pty Ltd	Australia	100	100		
Fone Zone NSW South Wales Pty Ltd	Australia	100	100		
Fone Zone Victoria Pty Ltd	Australia	100	100		
The Mobile Phone Shop Pty Ltd	Australia	100	100		
Gould Holdings Pty Ltd	Australia	100	100		
Let's Talk Communications Pty Ltd	Australia	100	100		
In Touch Communications (Aust) Pty Ltd	Australia	100	100		
Call Direct Telecommunications Pty Ltd	Australia	100	100		
One Zero Communications Pty Ltd	Australia	100	100		
One Xerro TLS (Bundaberg) Pty Ltd	Australia	100	100		
Geek Squad Pty Ltd (Formerly known as One Xerro TLS (Gladstone) Pty Ltd)	Australia	100	100		
Geek Squad Australia Pty Ltd (Formerly known as One Xerro TLS (Morayfield) Pty Ltd)	Australia	100	100		
Computer Geek Squad Pty Ltd (Formerly known as One Xerro TLS (Werribee) Pty Ltd)	Australia	100	100		
One Zero TCS (Warwick) Pty Ltd	Australia	100	100		
One Zero Suncoast Pty Ltd	Australia	100	100		
Tribal Accessories Pty Ltd	Australia	100	100		
<i>Subsidiaries of Communique Holdings Pty Ltd:</i>					
Sprout Accessories Pty Ltd (Formerly known as Sansertel Pty Ltd)	Australia	100	100		
iConcierge Technology Solutions Pty Ltd (Formerly known as Quo Vadis (Aust) Pty Ltd)	Australia	100	100		
Qibbus (Aust) Pty Ltd	Australia	100	100		
<i>Subsidiaries of Next Byte Holdings Pty Ltd:</i>					
Next Byte Pty Ltd	Australia	100	100		
Next Byte International Pty Ltd	Australia	100	100		

Vita Group Limited, a company listed on the Australian Securities Exchange is the ultimate parent entity. Refer to Notes 2(a) and 2(c) with respect to the basis of preparation and basis of consolidation accounting policies.

(ii) Investments in joint ventures

Investments of Next Byte Holdings Pty Ltd:

Square [i] Solutions International Limited	United Kingdom	50	-	51	-
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VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

25. RELATED PARTY DISCLOSURES (continued)

(iii) Deed of Cross Guarantee

Entities subject to class order relief

Pursuant to Class order 98/1418, relief has been granted to Fone Zone Pty Ltd, Next Byte Holdings Pty Ltd and Next Byte Pty Ltd from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Vita Group Limited and Fone Zone Pty Ltd, entered into a Deed of Cross Guarantee on 18 April 2007. Next Byte Holdings Pty Ltd and Next Byte Pty Ltd were added under an Assumption Deed dated 21 December 2007 and Vita People Pty Ltd was added under an Assumption Deed dated 29 July 2009.

The effect of the deed is that Vita Group Limited has guaranteed to pay any deficiency in the event of winding up of the controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Vita Group Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Closed Group Class Order Disclosures

Vita Group Limited and all of its Controlled Entities, as shown above, are party to the above Deed of Cross Guarantee and represent a 'Closed Group' for the purposes of the Class Order.

As the consolidated financial statements cover all parties to the Deed of Cross Guarantee, no separate disclosure of consolidated information of the Closed Group has been shown.

(iv) Transactions with directors and director related entities

Melinda Snowden is currently a Director of Grant Samuel Debt Structuring & Advisory Pty Limited and Grant Samuel Corporate Finance Pty Limited. \$333,322 of fees (2010: \$69,600) were paid to these companies during the year ended 30 June 2011 for advisory services.

(v) Other related party transactions

During the year Vita Group Limited has received from and provided to its wholly owned subsidiaries, interest free loans as shown below.

These loans are repayable on call. No allowance has been made for impairment relating to amounts owed to or by related parties as payment is expected in full. An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Financial Guarantees held by the parent on behalf of other group entities are detailed in note 29.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

	CONSOLIDATED	
	2011	2010
	\$	\$
26. AUDITORS' REMUNERATION		
During the year, the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices. The auditor of Vita Group Limited is PricewaterhouseCoopers.		
(a) PwC Australia		
<i>Amounts received or due and receivable by PricewaterhouseCoopers for:</i>		
• an audit or review of the financial report of the entity and any other entity in the consolidated group	284,899	344,500
• other services in relation to the entity and any other entity in the consolidated group:		
a. tax compliance and consulting services	67,355	37,730
b. other assurance services	-	6,000
Total remuneration of PwC Australia	352,254	388,230
(b) Related practices of PwC Australia		
• tax consulting services	6,191	-
	6,191	-

27. EVENTS AFTER THE BALANCE SHEET DATE

There have been no other matters or circumstances not otherwise dealt with in this report, that will significantly affect the operation of the group, the results of those operations or the state of affairs of the group or subsequent financial years.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

28. DIRECTOR AND EXECUTIVE DISCLOSURES

a) Details of Key Management Personnel

(i) Directors

Dick Simpson	Chairperson (Independent Non-Executive)
David McMahon	Joint Chief Executive Officer
Maxine Horne	Joint Chief Executive Officer
Neil Osborne	Director (Independent Non-Executive)
Melinda Snowden	Director (Independent Non-Executive) - resigned on 22 August 2011
Diana Ryall	Director (Independent Non-Executive)

(ii) Executives

Peter Connors	General Manager Mobile Phones
Andrew Leyden	Chief Financial Officer – appointed 9 May 2011
Wayne Smith	Chief Organisation Development Officer
Mark Anning	Group Company Secretary and Legal Counsel – appointed 10 November 2009
Christine Kelly	Chief Financial Officer – resigned 7 April 2011
Shane Flynn	General Manager Retail Next Byte – appointed August 2010 and resigned January 2011
Jim Collier	General Manager Mobile Phones – resigned 30 June 2010
Darren Gaunt	General Manager Retail Next Byte – resigned 23 June 2010

There were no changes in Key Management Personnel after reporting date and before the date the financial report was authorised for issue.

b) Compensation of Key Management Personnel

Compensation by Category: Key Management Personnel

	2011 \$	2010 \$
Short-term	2,611,065	2,522,254
Post employment	150,617	174,142
Long-term benefits	19,604	47,592
Termination benefits	293,765	-
	3,075,051	2,743,988

Detailed remuneration disclosures are provided in sections *Remuneration of Key Managers* and *Remuneration of Non-Executive Directors* of the remuneration report on pages 10 to 18.

c) Compensation options: Granted during the year

During the financial year no share options were granted as equity compensation benefits (2010: nil).

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

d) Options holdings of Key Management Personnel (Consolidated)

	Balance at 1 July 2010	Granted as remuneration	Options exercised	Options forfeited	Balance at 30 June 2011	Vested and exercisable at 30 June 2011*
Executives						
Darren Gaunt	1,252,000	-	(1,252,000)	-	-	-
	1,252,000	-	(1,252,000)	-	-	-
	Balance at 1 July 2009	Granted as remuneration	Options exercised	Options forfeited	Balance at 30 June 2010	Vested and exercisable at 30 June 2010*
Executives						
Lee Moore	313,000	-	-	(313,000)	-	-
Darren Gaunt	1,252,000	-	-	-	1,252,000	1,252,000
	1,565,000	-	-	(313,000)	1,252,000	1,252,000

(i) Under the companies share option plan once shares have vested they are exercisable.

At 30 June 2011 no (2010: 1,252,000) share options had vested of which nil (2010: 1,252,000) were exercisable. There were no un-exercisable vested options at 30 June 2011 (2010: nil).

The options were granted on 2 November 2005 and the weighted average fair value of options on issue at 30 June 2010 was \$0.72.

e) Shareholdings of Management Personnel (Consolidated)

Shares held in VITA Group Limited

	Balance at 30 June 2010	Purchased	Balance at 30 June 2011
Directors			
Dick Simpson	165,785	16,500	182,285
David McMahon and Maxine Horne (jointly)	64,269,403	-	64,269,403
David McMahon	1,000	-	1,000
Maxine Horne	1,000	-	1,000
Neil Osborne	158,342	33,000	191,342
Melinda Snowden	-	-	-
Diana Ryall	-	-	-
Executives			
Peter Connors	70,000	-	70,000
Darren Gaunt	22,000	-	22,000

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

f) Loans to Key Management Personnel

There were no loans provided to Key Management Personnel during the financial year (2010: \$nil).

g) Other transactions and balances with Key Management Personnel

Details of other transactions with Key Management Personnel are in Note 25 Related party disclosure.

h) Disclosure statement

The group has applied the exemption under Corporation Amendment Regulation 2006 to transfer Key Management Personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section within the Directors' Report. These transferred disclosures have been audited.

29. PARENT ENTITY DISCLOSURES

As, and throughout, the financial year ended 30 June 2011, the parent entity of the Group was VITA Group Limited.

	2011 \$'000	2010 \$'000
Result of parent entity		
Profit/ (loss) for the year	357	(728)
Other comprehensive income	-	-
Total comprehensive income for the year	357	(728)
Financial position of parent entity at year-end		
Current assets	12,858	1,174
Non-current assets	51,116	51,271
Total assets	63,974	52,445
Current liabilities	25,785	14,134
Total liabilities	25,785	14,134
Total equity of the parent comprising of:		
Share capital	22,889	22,654
Retained earnings	12,550	12,907
Employee equity benefits reserve	2,750	2,750
	38,189	38,311

During the financial year ended 30 June 2011, VITA Group Limited declared and paid an interim fully franked dividend of \$2,849,996.

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2011

29. PARENT ENTITY DISCLOSURES (continued)

Parent entity contingencies

The parent has guarantees in relation to leasing commitments as well as other supplier arrangements, which are held on behalf of other group entities.

	2011 \$'000	2010 \$'000
Guarantees held for:		
Leasing commitments	2,099	15
Other supplier arrangements	10,000	-
	<u>12,099</u>	<u>15</u>

There were no other contingencies as at reporting date. (2010: \$nil)

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the company guarantees debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in Note 25 (iii) to the accounts.

Capital Commitments

The parent entity had not committed to any capital commitments at reporting date (2010: nil).

VITA GROUP LIMITED – ANNUAL FINANCIAL REPORT

Directors' Declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 28 to 76 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.

Note 2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board

The directors have been given the declarations by the joint chief executive officers and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Dick Simpson
Chairperson



David McMahon
Director and Joint Chief Executive Officer

Brisbane
29 August 2011



Independent auditor's report to the members of Vita Group Ltd

Report on the financial report

We have audited the accompanying financial report of Vita Group Ltd (the company), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Vita Group Ltd (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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Independent auditor's report to the members of Vita Group Ltd (continued)

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Vita Group Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the remuneration report included in pages 10 to 18 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Vita Group Ltd for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Steven Bosiljevac
Partner

Brisbane
29 August 2011

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Australian Securities Exchange (ASX) Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 22 August 2011.

(a) Distribution of equity securities

(i) Ordinary Share Capital

Fully paid ordinary shares are held by individual shareholders.

All issued shares carry one vote per share and carry the rights to dividends.

(ii) Options

Nil options are held.

Options are not listed on Australian Securities Exchange (ASX) and do not carry the right to vote.

Distribution of Shareholders

Size of Shareholding	Total Holders	No. of ordinary shares	Percentage
1 – 1,000	431	239,895	0.17
1,001 – 5,000	383	1,235,076	0.87
5,001 – 10,000	274	2,281,480	1.60
10,001 – 100,000	411	14,220,351	9.98
100,001 and over	96	124,522,998	87.38
	1,595	142,499,800	100.00
Shareholdings of less than a marketable parcel			
Holdings of less than 2,223 shares	556	458,756	0.32

(b) Twenty largest holders of quoted equity securities

Ordinary Shareholders	Fully paid	
	Number	Percentage
FZIC PTY LTD	56,342,124	39.54
COGENT NOMINEES PTY LIMITED	10,294,364	7.22
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOLED A/C>	7,838,561	5.50
FZIC PTY LTD (MCMAHON SUPER FUND A/C)	7,817,807	5.49
KAVEL PTY LTD<KLEEMAN FAMILY A/C>	5,366,666	3.77
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,739,453	1.92
IWPE NOMINEES PTY LTD<MZL OPPORTUNITY FUND A/C.	1,683,333	1.18
JP MORGAN NOMINEES AUSTRALIA LIMITED	1,538,310	1.08
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED<MLCI A/C>	1,415,832	0.99
IWPE NOMINEES PTY LTD <ANF INVESTEC BANK (AUS) LTD AC>	1,177,037	0.83
MOAT INVESTMENTS PTY LTD<MOAT INVESTMENT A/C>	1,116,455	0.78
ROSWEL PTY LTD	1,102,500	0.77
MRS PAULA STAAL	1,063,396	0.75
JAMBER INVESTMENTS PTY LTD<THE AMBER SCHWARZ FAM A/C>	1,000,000	0.70
BELL CO PTY LTD<RICHARD BELL FAMILY A/C>	825,000	0.58
NATIONAL NOMINEES LIMITED	780,634	0.55
MOAT INVESTMENTS PTY LTD<MOAT INVESTMENT A/C>	780,000	0.55
MR PETER JOHN STERLING + MRS ROSALIND VERENA STIRLING	760,000	0.53
IWPE NOMINEES PTY LIMITED<INVESTEC AUS EQUITY FUND AC>	752,900	0.53
NBPC PTY LTD	751,334	0.53
Top 20 holders of ORDINARY FULLY PAID SHARES	105,145,706	73.79

VITA GROUP LIMITED – ANNUAL REPORT

Australian Securities Exchange (ASX) Additional Information (continued)

(c) Substantial Shareholders

The number of shares held by substantial Shareholders and their associates as disclosed in substantial shareholding notices given to the company as at August 2011 were:

Ordinary Shareholders	Fully paid	
	Number	Percentage
FZIC Pty Ltd and associates	64,271,401	45.50%
Perpetual Limited and associates	9,427,076	6.62%
National Australia Bank Limited and associates	8,954,881	6.34%
TOTAL	82,653,358	58.46%