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Vita Group Limited

ABN 62 113 178 519

Annual Financial Report

for the year ended 30 June 2010

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VITA GROUP LIMITED – ANNUAL REPORT

Corporate Information

ABN 62 113 178 519

This Annual Report covers both Vita Group Limited as an individual entity and the consolidated entity comprising Vita Group Limited and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

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 7 to 8.

Directors

R. A. (Dick) Simpson (Chairman)
D. L. McMahon (Joint Chief Executive Officer)
M. J. Horne (Joint Chief Executive Officer)
N. A. Osborne
M. F. Snowden
D. M. Ryall AM (appointed 5 March 2010)

Company Secretaries

W. L. te Kloot (resigned 10 November 2009)
C. M. Kelly
M.E.H. Anning (appointed 10 November 2009)

Registered Office and Principal Place of Business

'Vita Place' Level 3 ,
Albion, Queensland, Australia
Telephone: 61 7 3624 6666
Facsimile: 61 7 3624 6999
www.vitagroup.com.au

Share Registry

Computershare Investor Services Pty Limited
Level 19, 307 Queen Street
Brisbane, Queensland, Australia
Telephone: 61 7 3237 2100
Facsimile: 61 7 3237 2152
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

National Australia Bank Limited
Brisbane, Australia

Auditors

PricewaterhouseCoopers
Brisbane, Australia

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report

Your Directors submit their report for the year ended 30 June 2010.

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

R. A. Simpson (Chairman)
D. L. McMahon (Joint Chief Executive Officer)
M. J. Horne (Joint Chief Executive Officer)
N. A. Osborne
M. F. Snowden
D. M. Ryall AM (appointed 5 March 2010)

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

Current Directors

Dick Simpson **Non-Executive Chairman**

Dick brings considerable experience to the board. He has held roles as the Chief Executive Officer in both the Telecommunications and Computing industries. He has also been chairman 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 was on the Remuneration & Nomination Committee, and the Audit, Compliance & Risk Committee. He retired from the committee roles on 24 May 2010 and remains Chairman of the Board. He is also a Director of Chevalier College in Bowral.

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 16 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 the Vita Group. From a one store beginning in 1995 to a multi brand and multi channel publicly listed company with its two key partners being dominant players in their respective markets – Telstra and Apple – Maxine has envisioned, guided and delivered each step.

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 23 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 brands across finance, supply chain, strategic planning and merchandise, 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 Chairman of the Audit, Compliance & Risk Committee, and a member of the Remuneration & Nomination Committee.

Neil is currently a Director of Colorado Group Limited (from February 2007) and a Director of Foodworks Ltd (from November 2006).

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 NablInvest Holdings Limited and an Executive Director of corporate advisory firm Grant Samuel Debt Structuring & Advisory Pty Limited. She has advised on a variety of transactions including capital raisings, mergers and acquisitions, and the preparation of independent expert reports.

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.

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, and is a member of the Audit, Compliance & Risk Committee and the Remuneration & Nomination Committee.

VITA GROUP LIMITED – ANNUAL REPORT

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.

	Ordinary shares held at 30 June 2009	Ordinary shares purchased	Ordinary shares acquired under the Non-Executive Director Share Plan	Ordinary shares sold in year	Ordinary shares held at 30 June 2010
Directors					
Dick Simpson	97,759	68,026	-	-	165,785
David McMahon	55,796,535	8,474,868	-	-	64,271,403
Maxine Horne	55,796,535	8,474,868	-	-	64,271,403
Neil Osborne	101,200	57,142	-	-	158,342
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	
N.A. Osborne (c)		R.A. Simpson (c)	(Retired 24 May 2010)
M.F. Snowden		M.F. Snowden	
R.A. Simpson	(Retired 24 May 2010)	N.A. Osborne	
D.M.Ryall	(Appointed 5 March 2010)	D.M Ryall	(Appointed 5 March 2010)

Note (c) Designates the Chairman of the Committee

	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
Number of meetings held:	10		4		3	
R.A. Simpson	10	10	4	4	3	3
D.L. McMahon	10	10	-	-	-	-
M.J. Horne	10	9	-	-	-	-
N.A Osborne	10	10	4	4	3	3
M.F. Snowden	10	10	4	4	3	3
D.M. Ryall	4	4	1	1	1	1

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

COMPANY SECRETARIES

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

W. L. te Kloot (resigned 10 November 2009)
C. M. Kelly
M.E.H. Anning (appointed 10 November 2009)

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

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

Mark was appointed full time 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/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 Chairman 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).

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

Christine has over 20 years experience in financial management, financial and management reporting, budgeting and forecasting, systems development and credit management. She spent many years in a variety of roles at Telstra Corporation and prior to joining Vita Group, was Manager Finance at Crane Distribution Ltd.

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.

Secretaries who resigned throughout the year

Bill te Kloot **Company Secretary**

Bill has over 25 years experience as a Company Secretary, working in a variety of companies and industries during that time. He is a Fellow of Chartered Secretaries Australia and a Fellow of the Australian Institute of Company Directors.

Bill joined Vita Group in September 2005, and was contracted to carry out all secretarial duties including meeting the requirements of ASIC and Australian Securities Exchange (ASX) and providing counsel on corporate governance issues. He resigned 10 November 2009.

DIVIDENDS

	Cents	\$'000
No final franked dividend has been approved by the Board:		
• on ordinary shares	Nil	<u>-</u>

DIVIDENDS PAID IN THE YEAR

	Cents	\$'000
Interim for the year		
• on ordinary shares	-	<u>-</u>
Final for 2009 shown as recommended in the 2009 financial report		
• on ordinary shares	-	<u>-</u>

VITA GROUP LIMITED – ANNUAL REPORT

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 through Fone Zone, One Zero and recently expanded Telstra stores, and Apple computers and other Apple products through Next Byte stores in Australia's major metropolitan and regional areas.

OPERATING AND FINANCIAL REVIEW

Review of Operations

Vita Group experienced a strong recovery in earnings as a result of the benefits from the ongoing optimisation of the business as well as the new dealer arrangements entered into with Telstra in the first half of the year.

Despite a 2% decline in revenue to \$292m due to lower store numbers, net profit after tax increased 41.5% to \$7.7m.

The increase in profit was driven predominately by the new dealer arrangements agreed with Telstra in August 2009. The new arrangements incorporate a change in commission structure from the old model to an upfront payment model from November 2009, as well as the granting of a Master Licence to Vita to roll out a number of new Telstra stores in agreed phases over the next four years.

The first phase of 25 stores remained on track with Vita opening 13 new Telstra stores in the financial year. We have been very pleased with the early performance of these stores and remain confident of continued positive results as we continue the rollout.

The change in commission structure with Telstra to an upfront model led to Telstra making payments to Vita to complete its financial obligations to us under the old commission structure. These financial obligations totalled \$23.6m, \$13.9m of which was received in the 2009/2010 financial year. The remainder will be received in the 2010/2011 financial year.

The Store Optimisation Program undertaken by the Group over the last couple of years has now mostly been completed. As a result of this, 22 underperforming stores were closed (17 Fone Zone and 3 Next Byte Stores).

We saw an improved performance from Next Byte with EBITDA up 106% to \$4.1m. This was a direct result of the improvements implemented during 2009 financial year. We are confident that the positive momentum in the Next Byte business will continue going forward, being aided by the continued success of Apple products such as iPhone and iPad.

Operating Results for the Year

Total revenue for the year was \$292 million, a decrease of 2% from \$298 million the previous year. Net profit after tax increased from \$5.4 million last year to \$7.7 million.

VITA GROUP LIMITED – ANNUAL REPORT

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:

	2010	2009
Basic earnings per share (cents)	5.43	3.84
Return on equity	16.2%	13.6%
Net debt/(Net debt plus total equity)	4.8%	27.8%

The share price at 30 June 2010 was \$0.22 (2009: \$0.09).

Review of Financial Condition

The consolidated cash flow statement shows an operating cash flow of \$21.0 million, compared to the previous year of \$9.5 million. Cash at 30 June 2010 was \$12.5 million, compared to \$9.9 million at the end of the previous year.

Profile of Debts

	2010 \$'000	2009 \$'000
Current		
Obligations under finance leases and hire purchase contracts	2,362	1,591
Commercial bills	7,692	5,000
Non-current		
Obligations under finance leases and hire purchase contracts	4,838	2,904
Commercial bills	-	15,650
	14,892	25,145

The Company sources the majority of its funds from the National Australia Bank. The board considers the current level of net debt / (net debt plus equity) in the Group of 4.8% to be well 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 Company, the results of those operations or the state of affairs of the Company or subsequent financial years.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue to roll out Telstra Stores. We expect to finish Phase 1 by December 2010 and are in planning for Phase 2 of the next 25 Telstra Stores. We anticipate that Phase 2 will be completed throughout 2011.

The performance of Next Byte continues to improve and we are working with Apple to ensure Next Byte is a leading player in the Apple Premium Reseller network.

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 secretaries of the Parent and the Group.

Details of key management personnel (including the five highest paid executives of the Company and the Group):

(i) Directors

R. A. Simpson	Chairman (Independent Non-executive)
D. L. McMahon	Joint Chief Executive Officer
M. J. Horne	Joint Chief Executive Officer
N. A. Osborne	Director (Independent Non-Executive)
M. F. Snowden	Director (Independent Non-Executive)
D. M. Ryll	Director (Independent Non-Executive) – appointed 5 March 2010

(ii) Executives

Peter Connors	Chief Product, Marketing and Technical Officer
Christine Kelly	Chief Financial Officer
Wayne Smith	Chief Organisation Development Officer
Jim Collier	General Manager Mobile Phones – contract ended 30 June 2010
Darren Gaunt	General Manager Retail Next Byte – resigned 23 June 2010
Mark Anning	Group Company Secretary and Legal Counsel – appointed 10 November 2009
Wendy Carruthers	General Manager Business Solutions – resigned 28 February 2010

Changes to key management personnel after reporting date include the appointment of Peter Connors as General Manager Telecoms replacing Jim Collier. His previous responsibilities as Chief Product, Marketing and Technical Officer were redistributed amongst continuing key management personnel. Recruitment of a General Manager Next Byte was completed and the new General Manager will commence on 30 August 2010.

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. In the "Get" section we know that we have to be market competitive in our remuneration to help us identify, attract and select the right people to join Vita Group. To help with "Grow" we have an established Team Member Performance Review and Feedback process which helps us to ensure we pay for performance. This also helps to achieve our "Keep" element as it is a key lever in achieving a performance and consequence culture to ensure that the key elements of business achievement at Vita Group are measured, monitored and rewarded.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration & Nomination Committee

The Company 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 Non-Executive Directors including the Committee Chairman. The Chairman 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 or professional people as may be appropriate from time to time.

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

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

Employee Share Plans

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

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

The Company'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 Company'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 Company'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 Company of any dealings in Vita Group securities at the end of each Board and senior management meeting. Option certificates are held by the Company Secretary for security

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 Company'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 Company up to the market value of \$1,000, depending on length of service.

The plan is administered by the Remuneration and Nomination Committee of the Company. 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 Company, 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.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

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.

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.

Employee Share Option Plan

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

An employee of the Company 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 Company 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 Company 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.

At 30 June 2010, the Company has granted the following options:

Number of options	Exercise price and date of issue	Earliest exercise date	Latest exercise date
5,634,000	\$0.1876 2 November 2005	First third on the first anniversary of the date of issue	23 August 2010*

* Due to the resignation of Darren Gaunt

Of the 5,634,000 options granted, 3,025,667 have been forfeited and 1,356,333 have been exercised, leaving an outstanding vested and exercisable balance of 1,252,000 held by a former member of the KMP as at 30 June 2010. These final outstanding vested and exercisable options were exercised by 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.

VITA GROUP LIMITED – ANNUAL REPORT

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 Company'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 Company'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 Company 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 which can 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 Company. It may terminate or suspend the operation of the plan at any time.

Group Performance

Vita Group has been a listed entity since 2 November 2005, so it is not possible to present dividend and share price figures for the years prior to the listing. Revenue and profit figures for the current year, and the four prior years are as follows:

	2010	2009	2008	2007	2006
	\$m	\$m	\$m	\$m	\$m
Revenue from operating activities	292.0	297.8	**310.2	**197.8	**181.8
EBIT *	11.4	8.1	**11.0	**10.8	**16.6
Net Profit after Tax	7.7	5.4	**7.5	**7.0	**10.7
	\$	\$	\$	\$	\$
Total dividend paid per share	-	-	0.035	0.033	.0040
Market Price per Share at 30 June	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.

Vita Group shares were sold under the IPO at \$1.00 and at 30 June 2010 were trading at \$0.22 (2009: \$0.09). No final dividend has been declared for the year ended 30 June 2010 (2009: Nil). The total dividend for the year was Nil cents per share (Nil cents interim paid plus Nil cents final declared) (2009: 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 different and is set out separately below.

Remuneration of Key Managers

As indicated in the Remuneration Policy section, our approach with our KMPs is to ensure market competitiveness to attract, grow, and retain executives.

KMPs receive Fixed Remuneration which comprises the following aspects:

- Salary,
- Superannuation Contributions,
- Such other non-cash benefits (including motor vehicles) as are agreed from time to time, and
- 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 Company and individual performances as well as external remuneration market data.

In addition there are Variable Components such as:

- Short Term Incentive Program (STIP)
- Long Term Incentive Program (LTIP)

All current KMPs have a STIP component to their remuneration and rewards, whilst some have a LTIP. The LTIP remains under review with any change designed to drive retention, optimal business outcomes and a performance based culture.

Variable Remuneration comprises the following:

- 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
- a long-term incentive in the form of bonus shares
- a long-term incentive in the form of options to purchase shares in Vita Group.

The issue of shares and options under these plans is intended to align the interests of key managers more closely with those of Shareholders.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each key manager is set out in the table below.

Remuneration details for the key managers and the five highest paid executives of the Company and the Group are shown below.

VITA GROUP LIMITED – ANNUAL REPORT

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	Options as a % of Total Package	Total Package Value
		Primary Salary	Eligible Termination payments	Other Benefits	Commission /Bonus	Short Term Incentive as a % of Primary Remuneration	Superannuation	Long Service Leave	Employee Share Options		
		\$	\$	(a) \$	(b) \$	(c) %	\$	\$	(d) \$		
Wendy Carruthers (Start: 2 February 2009 – Resigned: 28 February 2010) General Manager Business Solutions	2010	137,165	42,308	-	20,833	13.8%	14,337	(212)	-	0.0%	214,431
	2009	83,203	-	-	22,708	25.2%	6,923	212	-	0.0%	113,046
Jim Collier (Start: 29 June 2009 (Resigned 30 June 2010) General Manager Mobile Phones	2010	223,244	-	-	50,000	20.6%	19,188	3,842	-	0.0%	296,274
	2009	-	-	-	-	0.0%	-	-	-	0.0%	-
Peter Connors (Start: 25 August 2008) Chief Product, Marketing and Technical Officer	2010	188,038	-	-	23,853	11.5%	18,660	5,249	-	0.0%	235,800
	2009	158,776	-	-	23,400	13.6%	13,656	404	-	0.0%	196,236
Darren Gaunt (Resigned: 23 June 2010) General Manager Retail Next Byte	2010	225,990	-	-	18,349	7.4%	23,330	4,026	-	0.0%	271,695
	2009	252,030	-	-	50,181	18.1%	24,483	4,027	31,485	8.7%	362,206
Maxine Horne Joint Chief Executive Officer	2010	458,643	-	40,380	92,890	17.5%	30,315	11,253	-	0.0%	633,481
	2009	261,661	-	45,389	(f) -	0.0%	22,758	4,162	-	0.0%	333,970
Christine Kelly (Start: 15 April 2009) Chief Financial Officer	2010	189,378	-	-	21,820	10.5%	19,303	6,265	-	0.0%	236,766
	2009	39,161	-	(e) 21,405	(e) 21,405	50.6%	3,138	358	-	0.0%	64,062
David McMahon Joint Chief Executive Officer	2010	509,515	-	15,299	101,376	18.2%	32,232	7,915	-	0.0%	666,337
	2009	493,793	-	19,659	(f) -	0.0%	43,131	7,912	-	0.0%	564,495
Lee Moore (Resigned: 31 July 2009) General Manager Operations Next Byte	2010	7,598	50,000	-	-	0.0%	1,772	(24,880)	-	0.0%	34,490
	2009	154,260	-	6,029	(150)	(0.1%)	18,776	5,429	23,614	11.4%	207,958
Dave Rundle (Start: 6 October 2008 - Resigned: 3 July 2009) General Manager Mobile Phone	2010	8,582	8,469	-	-	0.0%	762	(419)	-	0.0%	17,394
	2009	162,702	-	-	-	0.0%	13,947	419	-	0.0%	177,068
Wayne Smith Chief Organisation Development Officer	2010	222,194	-	-	27,431	11.3%	21,460	7,181	-	0.0%	278,266
	2009	208,114	-	-	26,910	11.7%	22,400	2,830	-	0.0%	260,254
Trevor Wulfse (Retired: 14 April 2009) Chief Financial Officer	2010	-	-	-	-	-	-	-	-	0.0%	-
	2009	176,210	196,259	-	-	-	20,193	(523)	-	0.0%	392,139
Mark Anning (Appointed 10 November 2009) Group Company Secretary/Legal Counsel	2010	113,854	-	-	-	-	9,654	1,861	-	0.0%	125,369
	2009	-	-	-	-	-	-	-	-	0.0%	-
TOTAL	2010	2,284,201	100,777	55,679	356,552	14.1%	191,013	22,081	-	0.0%	3,010,303
	2009	1,989,910	196,259	71,077	144,454	6.4%	189,405	25,230	55,099	2.1%	2,671,434

- (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 company and individual performance against key performance indicators.
- (c) Short-term incentive includes commission and bonuses. Primary Remuneration includes primary salary, other benefits, and superannuation.
- (d) Value of Options issued under the Employee Share Option Plan at the time of listing on the Australian Securities Exchange (ASX). The fair value is determined by an external valuer using a binomial model. As at the date of this report all of the options have vested.
- (e) Disclosed bonus relates to full year service including prior position.
- (f) Annual bonuses for Mr McMahon and Mrs 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 their entitlement for 2010.
- (g) The annual bonus for continuing key management personnel (other than the CEOs) is based upon a performance assessment against predetermined criteria. At the time of completion of this report, 2010 entitlements had not been assessed; this report reflects bonus paid in 2010 relating to 2009 entitlements. The annual bonus in 2009 reflects bonus paid in 2009 relating to 2008 entitlements. Applicable for Christine Kelly, Wayne Smith, Peter Connors and Mark Anning.

VITA GROUP LIMITED – ANNUAL REPORT

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of Key Managers (continued)

Options granted as part of remuneration

	Total value of options at Grant Date*	Total Number of options at 30 June 2009	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 2010 [#]
Wendy Carruthers	-		-	-	-	-
Jim Collier	-		-	-	-	-
Peter Connors	-		-	-	-	-
Darren Gaunt	903,109	1,252,000		-	-	1,252,000
Maxine Horne	-		-	-	-	-
Christine Kelly	-		-	-	-	-
David McMahon	-		-	-	-	-
Lee Moore	212,527	313,000	-	-	(313,000)	-
Dave Rundle	-		-	-	-	-
Wayne Smith	-		-	-	-	-
Trevor Wulfse	-		-	-	-	-

* Using share value as at option Grant Date

[#] These final outstanding vested and exercisable options were exercised by 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 Company may terminate the Contract by giving a minimum of six months notice or providing payment in lieu of the notice period.
- The company 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 performance bonus 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 Company 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 company 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 Company 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 Chairman's fee is \$109,000.

Name		Directors' Fees	Superannuation	Total
		\$	(a) \$	\$
R.A. Simpson (b)	2010	59,000	50,000	109,000
Chairman	2009	-	89,813	89,813
T.B. Finn (c)	2010	-	-	-
Chairman	2009	51,386	4,625	56,011
N.A. Osborne	2010	50,000	4,500	54,500
Non-executive	2009	12,500	42,000	54,500
M. Snowden	2010	50,000	4,500	54,500
Non-executive	2009	38,269	3,444	41,713
D. Ryall (d)	2010	12,500	1,125	13,625
Non-executive				
Total Non-Executive Directors	2010	171,500	60,125	231,625
	2009	102,155	139,882	242,037
D.L. McMahon	2010	Details are in the remuneration of key		666,337
Joint Chief Executive Officer	2009	managers table above		564,495
M.J. Horne	2010	Details are in the remuneration of key		633,481
Joint Chief Executive Officer	2009	managers table above		333,970
Total Directors	2010			1,531,443
	2009			1,140,502

- (a) Superannuation includes cash and Vita Group shares issued under the Non-Executive Director Share Plan, contributed to complying superannuation funds.
- (b) Appointed Chairman 6 November 2008.
- (c) Resigned 6 November 2008.
- (d) Appointed 5 March 2010.

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. No options were exercised during the year (2009: No options exercised). Details of the options outstanding are shown in the table of directors and key manager's interests in shares in the Company above, and in the table below.

Number of options at 30 June 2010 held by members of KMP	Exercise price and date of issue	Earliest exercise date	Latest exercise date
1,252,000	\$0.1876 2 November 2005	First third on the first anniversary of the date of issue	23 August 2010*

* Due to resignation of Darren Gaunt effective 23 June 2010

These final outstanding vested and exercisable options were exercised by 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.

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 Company 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 Company against any liability (other than for legal costs) incurred by that person as an officer of the Company (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 Company against reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by that person as an officer of the Company (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 Company 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 current Directors are listed elsewhere in this report. 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 company 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 Company 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.

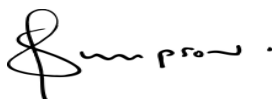
Non-Audit Services

The following non-audit services were provided by the entity'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 the auditor independence was not compromised.

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

	2010	2009
	\$	\$
PricewaterhouseCoopers		
Tax compliance	37,730	24,080
Other assurance services	6,000	600

Signed in accordance with a resolution of the Directors. The Directors have the power to amend and reissue the financial report.



R.A. Simpson
Chairman

Brisbane
27 August 2010



D.L. McMahon
Director and Joint Chief Executive Officer

PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of Vita Group Limited for the year ended 30 June 2010, 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 period.



Robert Baker
Partner
PricewaterhouseCoopers

Brisbane
27 August 2010

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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 Company'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

The Company 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 Company.

The day to day management of the Company 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

A formal statement of Delegated Authorities, setting out financial and other limits delegated to management, and matters requiring Board approval, has been adopted by the Board.

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 Company'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/August 2010.

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 Chairman) 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 3 and 4 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 Company'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 Company 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 5 of this Annual Report.

The Chairman of the Company is an independent Non-Executive Director.

The roles of Chairman and Chief Executive Officer are exercised by separate individuals.

Remuneration and Nomination Committee

The Company 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 Chairman.

The names and qualifications of members of the Remuneration and Nomination Committee and their attendance at meetings are set out on pages 3 to 5 of this Annual Report. The Chairman 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 5 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 Company'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 Chairman 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 Company'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 Company 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 Chairman, 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 Company'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 Company's Whistleblower Policy.

Appropriate training programs on the Company'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 Chairman, buy or sell shares in the Company. 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 Company.

The entering into of all types of "protection arrangements" (including hedges, derivatives and warrants) in connection with any of the Company'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 company or a trust, more than 0.5% of the Company'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 company or a trust, any of the Company's listed securities, enters into a 'margin loan, or similar arrangements in respect of those listed securities, he or she must advise the Company 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.

Principle 4: Integrity in Financial Reporting

Audit, Compliance and Risk Committee

The Company 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 Chairman who is not also Chairman 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 on pages 3 to 5 of this Annual Report. The Chairman and/or any other Director is 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 Company'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 5 of this Annual Report.

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 Company. The Committee may, with authority from the Chairman 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 Chairman of the Committee also reports to the Board after each Committee meeting.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

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 Company 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 Company has established a Shareholder Communication Policy and aims to keep Shareholders informed of the Company'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 half-year 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.

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 company'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 Company 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. Performance against KPOs is evaluated six monthly, and is taken into account in any salary movements.

VITA GROUP LIMITED – ANNUAL REPORT

Corporate Governance Statement (continued)

The Company does not have an Internal Audit function, but an Assurance Team, reporting to the Chief Organisational Development Officer conducts regular audits of each store, and, using a scoring system, provides feedback to the store and to management. Stores with unsatisfactory scores are followed up to ensure they bring their practices and controls up to the required standard. Managers associated with stores whose score is below Company benchmarks forfeit their commissions and bonuses until the required standards are met. Any instances of fraud are followed up by the Assurance Team. 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 Company's material risks. The Chairman 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 Company'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.

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 Company'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 9 to 17 of this Annual Report.

The Company'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 Company's Share Trading Policy.

VITA GROUP LIMITED – ANNUAL REPORT

Consolidated Statement of Comprehensive Income FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
Continuing Operations					
Sale of goods		239,439	252,037	-	-
Fee income / Commission		52,224	45,383	-	-
Finance revenue		339	428	-	1
Revenue	4(a)	292,002	297,848	-	1
Cost of sales		(188,357)	(194,175)	-	-
Gross profit		103,645	103,673	-	1
Other income	4(b)	4,510	4,974	-	-
Employment expenses	4(e)	(57,144)	(60,323)	-	(78)
Marketing and advertising expenses		(4,129)	(5,566)	-	-
Operating lease rental expenses	4(f)	(15,613)	(15,497)	-	-
Depreciation and amortisation expenses	4(d)	(5,634)	(5,875)	-	(60)
Other expenses	4(g)	(13,894)	(12,907)	(913)	(459)
Finance costs	4(c)	(925)	(1,619)	(127)	(990)
Profit from continuing operations before income tax		10,816	6,860	(1,040)	(1,586)
Income tax (expense) / benefit	5	(3,149)	(1,442)	312	552
Profit from continuing operations		7,667	5,418	(728)	(1,034)
Other comprehensive income for the period, net of tax		-	-	-	-
Total comprehensive income for the period, attributable to the ordinary equity holders of Vita Group Limited		7,667	5,418	(728)	(1,034)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company	6				
- basic (cents per share)		5.43	3.84		
- diluted (cents per share)		5.42	3.84		

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

VITA GROUP LIMITED – ANNUAL REPORT

Consolidated Statement of Financial Position AS AT 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Current Assets					
Cash and cash equivalents	8	12,477	9,850	1,034	55
Trade and other receivables	9	22,772	19,849	43	1,990
Inventories	10	14,543	10,106	-	-
Prepayments		1,815	1,467	97	150
Income tax receivable		-	1,573	-	1,573
Total Current Assets		51,607	42,845	1,174	3,768
Non-current Assets					
Term Deposits	11	113	252	-	-
Investments in controlled entities	23	-	-	51,089	51,089
Deferred tax asset	5	5,499	4,943	182	182
Plant and equipment	12	13,602	12,251	-	-
Intangible assets and goodwill	13	54,500	54,399	-	-
Total Non-current Assets		73,714	71,845	51,271	51,271
TOTAL ASSETS		125,321	114,690	52,445	55,039
LIABILITIES					
Current Liabilities					
Trade and other payables	16	50,568	40,560	4,107	-
Interest bearing loans and borrowings	17	10,054	6,591	7,692	4,000
Income tax payable		2,335	-	2,335	-
Provisions	18	4,670	3,840	-	-
Total Current Liabilities		67,627	50,991	14,134	4,000
Non-current Liabilities					
Trade and other payables	16	2,782	2,469	-	-
Interest bearing loans and borrowings	17	4,838	18,554	-	12,000
Provisions	18	2,630	2,899	-	-
Total Non-current Liabilities		10,250	23,922	-	12,000
TOTAL LIABILITIES		77,877	74,913	14,134	16,000
NET ASSETS		47,444	39,777	38,311	39,039
EQUITY					
Contributed equity	19	12,844	12,844	22,654	22,654
Retained earnings	19	31,850	24,183	12,907	13,635
Reserves	19	2,750	2,750	2,750	2,750
TOTAL EQUITY		47,444	39,777	38,311	39,039

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

VITA GROUP LIMITED – ANNUAL REPORT

Consolidated Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2010

Consolidated	Attributable to equity holders of the parent			Total equity \$'000
	Contributed equity	Retained earnings	Employee equity benefits reserve	
	\$'000	\$'000	\$'000	
At 1 July 2008	12,844	20,177	2,672	35,693
Income and expenses recognised directly in equity	-	-	-	-
Total income / expense for the year recognised directly in equity	-	-	-	-
Profit for the year	-	5,418	-	5,418
Total comprehensive income for the year	-	5,418	-	5,418
Transactions with owners in their capacity as owners:				
Dividends paid	-	(1,412)	-	(1,412)
Cost of share-based payment	-	-	78	78
At 30 June 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	-	-	-	-
Cost of share-based payment	-	-	-	-
At 30 June 2010	12,844	31,850	2,750	47,444

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

VITA GROUP LIMITED – ANNUAL REPORT

Consolidated Statement of Changes in Equity FOR THE YEAR ENDED 30 JUNE 2010

Parent	Attributable to equity holders of the parent			Total equity \$'000
	Contributed equity	Retained earnings	Employee equity benefits reserve	
	\$'000	\$'000	\$'000	
At 1 July 2008	22,654	16,081	2,672	41,407
Income and expenses recognised directly in equity	-	-	-	-
Total income / expense for the year recognised directly in equity	-	-	-	-
Profit / (Loss) for the year	-	(1,034)	-	(1,034)
Total comprehensive income for the year	-	(1,034)	-	(1,034)
Transactions with owners in their capacity as owners:	-	-	-	-
Dividends paid	-	(1,412)	-	(1,412)
Cost of share-based payment	-	-	78	78
At 30 June 2009	22,654	13,635	2,750	39,039
Income and expenses recognised directly in equity	-	-	-	-
Total income / expense for the year recognised directly in equity	-	-	-	-
Profit / (Loss) for the year	-	(728)	-	(728)
Total comprehensive income for the year	-	(728)	-	(728)
Transactions with owners in their capacity as owners:	-	-	-	-
Dividends paid	-	-	-	-
Cost of share-based payment	-	-	-	-
At 30 June 2010	22,654	12,907	2,750	38,311

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

VITA GROUP LIMITED – ANNUAL REPORT

Consolidated Statement of Cash Flows FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities					
Receipts from customers		322,410	323,012	-	-
Payments to suppliers and employees		(294,276)	(305,777)	(874)	(540)
Interest received		339	428	0	1
Finance costs		(925)	(1,619)	(126)	(990)
Income tax paid / (received)		53	735	48	735
Net GST remitted		(6,615)	(7,287)	10	22
Net cash flows from/(used in) operating activities	8	20,986	9,492	(942)	(772)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		64	19	-	-
Purchase of plant and equipment		(3,258)	(1,035)	-	-
Purchase of intangibles		(256)	(143)	-	-
Payments for business acquired	21	(682)	-	-	-
Net cash flows from/(used in) investing activities		(4,132)	(1,159)	-	-
Cash flows from financing activities					
Proceeds from borrowings		686	-	-	-
Repayment of borrowings		(13,184)	(5,254)	(8,308)	(4,000)
Repayment of finance lease principal		(1,728)	(1,725)	-	-
Inter-company loan		-	-	10,229	6,132
Equity dividends paid		-	(1,412)	-	(1,412)
Net cash flows from/(used in) financing activities		(14,226)	(8,391)	1,921	720
Net increase/(decrease) in cash and cash equivalents		2,627	(58)	979	(52)
Cash and cash equivalents at beginning of year		9,850	9,908	55	107
Cash and cash equivalents at end of year	8	12,477	9,850	1,034	55

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

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2010

1. CORPORATE INFORMATION

The financial report of Vita Group Limited (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of directors on 27 August 2010.

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, there is no going concern issue as the Group will be in receipt of trailing commissions earned under the old Telstra Agreement conditional on the rollout of the initial phase of 25 TLife Stores under our master licence. This rollout is on track, and the additional trailing commissions, unused facilities (as detailed in Note 17) and net cash inflows from operating activities in FY11 are sufficient to cover current borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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.

(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.

(i) Segment reporting

AASB 8 *Operating Segments* is applicable from 1 July 2009 and replaces AASB 114 *Segment Reporting*. AASB 8 aligns segment reporting with the requirements of the US standards SFAS 131 *Disclosures about Segment of an Enterprise and Related Information*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2009 have been restated.

(ii) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements* from 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(iii) Business combinations

Revised AASB 3 *Business combinations* provides additional guidance on how to apply the acquisition method in accounting for business combinations, including clarifying that acquisition-related costs must be expensed in the period in which the costs are incurred rather than being added to the cost of the business combination. AASB 3 is applicable prospectively to all business combinations for which the acquisition date is on or after 1 July 2009 (Refer Note 2 (d) Business Combinations Pg 33-34).

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by the Group for the annual reporting period ending 30 June 2010. These are outlined in the table below.

Pronouncement	Application date	Impact of Amendment
AASB 2009-8 <i>Amendments to group cash-settled share-based payments (AASB 2)</i>	1 January 2010	The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the Group settles the transaction, and no matter whether the transaction is settled in shares or cash. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.
AASB 2009-5 <i>Further amendments arising from the second annual improvements project</i>	1 January 2010	In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards (effective for periods beginning on or after 1 January 2010). The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.
AASB 2009-10 <i>Amendment to AASB 132 Classification of rights issues</i>	1 February 2010	The amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.
AASB 2009-14 <i>Amendment to Interpretation 14 Prepayments of a minimum funding requirement</i>	1 January 2011	The objective of this Standard is to make amendments to Interpretation 14 AASB 119 – <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> as a consequence of the issuance of <i>Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)</i> by the International Accounting Standards Board in November 2009. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.
AASB 134 <i>Interim financial reporting</i>	1 January 2011	The amendments seek to assist in clarifying the disclosure principles in AASB 134 particularly in relation to financial instruments and their fair values by clarifying the meaning of significant events and transactions by providing examples of the events or transactions that would require disclosure. AASB 134 requires disclosure of events and transactions that are significant in order for users of the financial statements to understand the changes of financial position and performance of the entity since the last annual reporting period.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB 9 <i>Financial Instruments</i>	1 January 2013	The objective of this Standard is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for assessing the amounts, timing and uncertainty of the entity's future cash flows. The Group will look to apply the revised standards from 1 July 2013, and acknowledges that any early application of the standard must be disclosed and at the same time the Group must apply the amendments in AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> .
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Except as outlined above and on the page immediately preceding this one the Directors anticipate that the adoption of the noted Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

(c) Basis of consolidation

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

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.

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.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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. The purchase 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 21).

(d) Business combinations

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 profit or loss as a bargain purchase.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations (continued)

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.

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition. Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax. The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the 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.

(e) Segment reporting

The Group has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an adjustment to the reportable segments presented, as a Support Services segment is now considered reportable.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Group Leadership Team ("GLT") which is the steering committee that makes strategic decisions.

No formal recharge of Support Services' costs is made to operating units in the normal course of business, however, for the purposes of reviewing goodwill for impairment, Support Services' costs are allocated to other segments on an arbitrary basis.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Segment reporting (continued)

segments has not required a reallocation of goodwill as the Support Services segment is allocated to the other segments for the purposes of reviewing goodwill for impairment. There has been no further impact on the measurement of the company's assets and liabilities.

(f) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made no judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

(ii) Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of Fixed Assets

Measurement after recognition. 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(o) & (r), 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(p) and 14 for further detail.

Impairment of intangible with finite life

The Group determines whether the intangible with finite life is 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(q) for further detail.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the binomial model.

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.

(g) 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Revenue recognition (continued)

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.

(h) 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.

(i) 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.

(j) 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. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(k) 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Trade and other receivables (continued)

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.

(l) 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 as follows:

Finished goods – purchase cost on a first in, first out basis.

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

(m) 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.

(n) 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 REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(p) 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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:

	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.

(r) 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 greater of 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.

(s) 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.

(t) 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.

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Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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).

(u) 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.

(v) Employee Benefits

(i) Wages, salaries, annual leave and sick 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 and accumulated sick 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.

(w) 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. The fair value is determined by an external valuer using a binomial model.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) 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.

(x) 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.

(y) 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.

(z) 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 REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

3. SEGMENT REPORTING

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group Leadership Team (“GLT”) that are used to make strategic decisions. The GLT currently consists of the Joint Chief Executive Officers, General Manager Mobile Phones, General Manager Next Byte Retail, General Manager Business Solutions, Chief Product, Marketing and Technology Officer, Chief Financial Officer, Chief Organisation Development Officer and the Group Company Secretary and Legal Counsel.

The GLT considers the business from a product and service perspective. The Group has three segments; the Telecommunications and Computing segments sell different products and as a result have different risk profiles; and a Support Services segment that provides support functions to the Group which are not recharged to the other segments.

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 Support Services segment provides central support functions including Product and Marketing, Finance, Human Resources and Information Technology.

The Group operates predominantly in Australia and thus the GLT does not consider the business from a geographical perspective.

There are currently no non-reportable segments.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

3. SEGMENT REPORTING (continued)

(b) Segment information provided to the Group Leadership Team

The segment information provided to the GLT for the reportable segments for the year ended 30 June 2010 is as follows:

	Telecomm- unications \$'000	Computing \$'000	Support Services \$'000	Total Operations \$'000
2010				
Revenue				
Sales of goods	116,840	122,420	179	239,439
Fee income / Commission	36,910		15,314	52,224
Total segment revenue	153,750	122,420	15,493	291,663
Inter-segment revenue	-	-	-	-
Revenue from external customers	153,750	122,420	15,493	291,663
Adjusted EBITDA	17,202	4,094	(4,260)	17,036
Impairment of plant and equipment	853	196	-	1,049
Depreciation and amortisation	3,823	1,040	771	5,634
Allocated Income tax expense	3,890	915	(1,656)	3,149
Total segment assets	62,728	60,115	2,478	125,321

The segment information provided to the GLT for the reportable segments for the year ended 30 June 2009 is as follows:

	Telecomm- unications \$'000	Computing \$'000	Support Services \$'000	Total Operations \$'000
2009				
Revenue				
Sales of goods	120,599	128,399	3,039	252,037
Fee income / Commission	37,004	-	8,379	45,383
Total segment revenue	157,603	128,399	11,418	297,420
Inter-segment revenue	-	-	-	-
Revenue from external customers	157,603	128,399	11,418	297,420
Adjusted EBITDA	16,557	3,342	(5,973)	13,926
Impairment of plant and equipment	48	19	-	67
Depreciation and amortisation	3,677	1,213	985	5,875
Allocated Income tax expense	2,700	460	(1,718)	1,442
Total segment assets	53,879	53,068	7,743	114,690

The 2009 Segment Reporting comparative has been restated to match the classifications applied to the 2010 disclosure.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

3. SEGMENT REPORTING (continued)

(b) Segment information provided to the Group Leadership Team (continued)

The GLT assesses the performance of the operating segments based on a measure of adjusted EBITDA.

No reporting is currently provided to the GLT 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 above are an allocation of total consolidated assets based on the operations of the segments and the physical locations of assets.

All Fee Income / Commission reported for the Telecommunications and Support Services segments above relates to Telstra. There are no other major customers.

* The revenue items shown in the Support Services segment are Telecommunications trailing commissions and claims relating to prior periods; and future trailing commission entitlements under the old Telstra dealer agreement that have been brought forward under the new Telstra dealer agreement signed 27 August 2009. In November 2009 we received an initial payment of \$12 Million in respect of trailing commissions earned (and to be earned) under the previous agreement. In May and June 2010, we received subsequent payment totalling \$1.9 Million in respect of trailing commissions earned (and to be earned) under the previous agreement. The payments received included an advance payment of \$3.4 Million reflecting a portion of trailing commissions that would have been earned by the company beyond 30 June 2010. These items are reported separately to the overall Telecommunications segment.

(c) Other segment information

(i) Segment revenue

The revenue from external parties reported to the GLT 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:

	2010 \$'000	2009 \$'000
Telecommunications products	153,750	169,021
Computing products	122,420	128,399
Support Services*	15,493	-
Total segment revenue	291,663	297,420

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

	2010 \$'000	2009 \$'000
Total segment revenue	291,663	297,420
Intersegment eliminations	-	-
Interest revenue	339	428
Other	-	-
Total revenue from continuing operations (note 4)	292,002	297,848

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

3. SEGMENT REPORTING (continued)

(c) Other segment information (continued)

(ii) Adjusted EBITDA

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

	2010 \$'000	2009 \$'000
Adjusted EBITDA	17,036	13,926
Intersegment eliminations	-	-
Interest revenue	339	428
Finance costs	(925)	(1,619)
Depreciation and amortisation expense	(5,634)	(5,875)
Profit before income tax from continuing operations	10,816	6,860

(iii) Segment assets

No reporting is currently provided to the GLT with respect to total segment assets as these items are managed at a consolidated Group level only. The amounts disclosed in Note 3 for total segment assets are an allocation of total consolidated assets based on the operations of the segments and the physical locations of assets.

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

	2010 \$'000	2009 \$'000
Segment assets	125,321	114,690
Intersegment eliminations	-	-
Unallocated:		
Deferred tax	-	-
Other	-	-
Total assets as per the Statement of Financial Position	125,321	114,690

(iv) Segment liabilities

No reporting is currently provided to the GLT with respect to total segment liabilities as these items are managed at a consolidated Group level only.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
4. REVENUE AND EXPENSES					
Revenue and Expenses					
(a) Revenue					
Sale of goods		239,440	252,037	-	-
Fee and Commission revenue		52,223	45,383	-	-
Finance revenue		339	428	-	1
		<u>292,002</u>	<u>297,848</u>	<u>-</u>	<u>1</u>
<i>Breakdown of finance revenue:</i>					
Bank interest		339	428	-	1
(b) Other income					
Cooperative marketing revenue		3,842	4,319	-	-
Other miscellaneous income		668	655	-	-
		<u>4,510</u>	<u>4,974</u>	<u>-</u>	<u>-</u>
(c) Finance costs					
Bank loans		524	1,266	127	990
Finance charges under finance leases		314	289	-	-
Finance charges under hire purchase contracts		37	22	-	-
Other interest		50	42	-	-
		<u>925</u>	<u>1,619</u>	<u>127</u>	<u>990</u>
(d) Depreciation and amortisation included in income statement					
Depreciation of plant and equipment	12	3,690	4,108	-	-
Amortisation of plant and equipment under lease	12	1,645	1,268	-	-
Amortisation of intangibles	13	299	499	-	60
		<u>5,634</u>	<u>5,875</u>	<u>-</u>	<u>60</u>
(e) Employee expenses					
Wages and salaries		50,094	53,063	-	-
Defined contribution superannuation expense		3,983	4,273	-	-
Employee entitlements		3,067	2,909	-	-
Employee share plan		-	-	-	-
Share-based payments expense		-	78	-	78
		<u>57,144</u>	<u>60,323</u>	<u>-</u>	<u>78</u>
(f) Lease payments included in income statement					
Minimum lease payments – operating lease		15,613	15,497	-	-
(g) Other expenses					
Loss on the disposal of plant and equipment		(29)	74	-	-
Impairment of plant and equipment	12	1,049	67	-	-
Consulting		844	779	68	144
Communications		1,574	1,930	-	-
Travel		803	1,186	-	-
Bank Fees		2,163	1,502	810	270
Other expenses		7,490	7,369	35	45
		<u>13,894</u>	<u>12,907</u>	<u>913</u>	<u>459</u>

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'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	3,863	1,724	(450)	(573)
Adjustment in respect of current income tax of previous years	96	(167)	(-)	(24)
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(810)	(115)	138	45
Income tax expense reported in the income statement	<u>3,149</u>	<u>1,442</u>	<u>(312)</u>	<u>(552)</u>
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	<u>10,816</u>	<u>6,860</u>	<u>(1,040)</u>	<u>(1,586)</u>
At the Group's statutory income tax rate of 30% (2009: 30%)	3,245	2,058	(312)	(476)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:	-	-	-	-
Share-based payment expense not allowable for income tax purposes	-	24	-	24
Miscellaneous income not assessable for income tax purposes	(192)	(473)	-	(76)
	<u>3,053</u>	<u>1,609</u>	<u>(312)</u>	<u>(528)</u>
Adjustment in respect of current income tax of previous years	96	(167)	(-)	(24)
Aggregate income tax expense / (benefit)	<u>3,149</u>	<u>1,442</u>	<u>(312)</u>	<u>(552)</u>

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

5. INCOME TAX (continued)

	Balance sheet		Income statement	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Deferred income tax				
Consolidated				
<i>Deferred tax assets</i>				
Provisions and expenses not yet deductible	5,464	5,423	(41)	(56)
Difference tax to accounting depreciation /amortisation	565	333	(232)	(230)
IPO Costs deductible	-	123	123	122
Intangible asset value not deductible	-	-	-	(18)
Accrued income assessable in year of receipt	(276)	(936)	(660)	67
DTL on trailing commissions via acquisitions	(254)			
	<u>5,499</u>	<u>4,943</u>		
Deferred income tax (income)/expense			<u>(810)</u>	<u>(115)</u>
Parent				
<i>Deferred tax assets</i>				
Provisions and expenses not yet deductible	44	59	15	(59)
IPO Costs deductible	-	123	123	122
Intangible asset value not deductible	-	-	-	(18)
	<u>44</u>	<u>182</u>		
Deferred income tax (income)/expense			<u>138</u>	<u>45</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.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

6. EARNINGS PER SHARE

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

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Net profit attributable to ordinary equity holders of the parent	7,667	5,418
	2010 Thousands	2009 Thousands
Weighted average number of ordinary shares for basic earnings per share	141,248	141,248
Effect of dilution : Share options	326	* -
Weighted average number of ordinary shares adjusted for the effect of dilution	141,574	141,248

* The prior year effective share options had an anti-dilutive impact thus has been excluded from the diluted earnings per share calculation

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000

7. DIVIDENDS PAID AND PROPOSED

Declared and paid during the year:

Dividends on ordinary shares:

Final franked dividend for 2009: Nil
(2008: 1.0 cent)

-	1,412	-	1,412
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Interim franked dividend for 2010: Nil
(2009: Nil)

-	-	-	-
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-	1,412	-	1,412
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Approved by the board of directors on 27 August 2010
(not recognised as a liability as at 30 June 2010)

Dividends on ordinary shares:

No final franked dividend for 2010 (2009: Nil)

-	-	-	-
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Franking credit balance

The amount of franking credits available for the subsequent financial year are:

- franking account balance as at the end of the financial year at 30% (2009: 30%)
- franking credits that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year

24,568	25,218
--------	--------

2,335	(1,475)
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The amount of franking credits available for future reporting periods

26,903	23,743
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- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period

-	-
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26,903	23,743
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VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
8. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	12,477	9,850	1,034	55
Cash at bank earns interest at floating rates based on daily bank deposit rates: 2010: 4.5% (2009: 3.0%).				
Reconciliation of net profit after tax to net cash flows from operations				
Net profit/(loss)	7,667	5,418	(728)	(1,034)
<i>Adjustments for:</i>				
Depreciation	3,690	4,108	-	-
Amortisation	1,944	1,767	-	60
Net loss on disposal of plant and equipment	(29)	74	-	-
Share-based payment expensed	-	78	-	78
Employee share plan expensed	-	-	-	-
Make good provision accretion	152	152	-	-
Impairment adjustment of non-current assets	1,142	67	-	-
Doubtful debt provision	(865)	9	-	-
Inventory obsolescence provision	(110)	(52)	-	-
Release of lease make good provision	(598)	(693)	-	-
Changes in operating assets and liabilities				
(Increase)/decrease in trade and other receivables	(1,169)	(6,548)	(4,175)	(2,208)
(Increase)/decrease in inventory	(4,437)	1,828	-	-
Decrease/(increase) in prepayments	(347)	70	54	(87)
(Increase)/decrease in deferred tax assets	(761)	(116)	-	45
Increase/(decrease) in current tax liability	3,907	2,412	3,907	2,451
Increase in trade and other payables	15,480	(1,672)	-	-
Increase/(decrease) in other creditors and accruals	(4,615)	2,495	-	(77)
Increase in provisions	(65)	95	-	-
Net cash flow from operating activities	20,986	9,492	(942)	(772)
Disclosure of financing facilities				
Refer to note 20.				
Non-cash financing and investing activities				
Acquisition of assets by means of finance leases (note 12)	3,973	2,332	-	-
Share based payments (note 15 and 4(e))	-	78	-	78

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
9. TRADE AND OTHER RECEIVABLES				
Trade receivables (i)	21,192	18,563	-	-
Allowance for doubtful debts	(452)	(417)	-	-
	20,740	18,146	-	-
Other receivables	2,029	1,703	43	43
Amounts other than trade receivables due to related parties:				
Controlled entities (ii)	3	-	-	1,947
	22,772	19,849	43	1,990

(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.

(ii) Related party receivables are non-interest bearing.

Allowance for doubtful debts

As at 30 June 2010 current trade receivables of the Group with a nominal value of \$452,392 (2009: \$417,299) were impaired. The amount of the provision was \$452,392 (2009: \$417,299). 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. There were no impaired trade receivables for the parent in 2010 or 2009.

The ageing of these receivables is as follows:

0-30 days	-	-	-	-
61-90 days	-	-	-	-
91+ days	452	417	-	-
Balance at 30 June	452	417	-	-

Movements in provision for doubtful debts were as follows:

At 1 July	417	408	-	-
Charge/(release) for the year	35	9	-	-
Amounts written off	-	-	-	-
Movements through acquisitions of entities	-	-	-	-
Balance at 30 June	452	417	-	-

As of 30 June 2010, trade receivables of \$2,201,492 (2009: \$2,584,195) were past due 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	202	784	-	-
91+ days	1,999	1,800	-	-
Balance at 30 June	2,201	2,584	-	-

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 20.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
10. INVENTORIES				
Finished goods	14,686	10,359	-	-
Provision for diminution in value	(143)	(253)	-	-
Total inventories at the lower of cost or net realisable value	14,543	10,106	-	-
Inventories recognised as an expense for the year ended 30 June 2010 totalled \$179,679,934 (2009: \$187,520,572) for the Group and \$nil (2009: \$nil) for the Company. 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 \$98,539 (2009: \$146,392) for the Group and \$nil (2009: \$nil) for the Company.				
11. TERM DEPOSITS				
Term deposits	113	252	-	-
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 4.3% (2009: 2.9%).				
12. PLANT AND EQUIPMENT				
Plant and equipment under lease	10,279	7,930	-	-
Accumulated amortisation and impairment	(4,504)	(4,097)	-	-
	5,775	3,833	-	-
Plant and equipment	36,517	32,194	-	-
Accumulated depreciation and impairment	(28,690)	(23,776)	-	-
	7,827	8,418	-	-
Total plant and equipment – at cost	46,796	40,124	-	-
Accumulated amortisation, depreciation and impairment	(33,194)	(27,873)	-	-
	13,602	12,251	-	-
Plant and equipment under lease				
At 1 July, net of accumulated amortisation and impairment	3,833	2,991	-	-
Additions	3,973	2,332	-	-
Disposals	(25)	(43)	-	-
Additions through the acquisition of entities/businesses	-	-	-	-
Transfer to plant and equipment	(155)	(375)	-	-
Amortisation charge for the year	(1,645)	(1,268)	-	-
Impairment	(206)	196	-	-
At 30 June, net of accumulated amortisation and impairment	5,775	3,833	-	-
Plant and equipment				
At 1 July, net of accumulated depreciation and impairment	8,418	10,403	-	-
Additions	3,823	2,105	-	-
Disposals	(116)	(94)	-	-
Additions through the acquisition of entities/businesses	80	-	-	-
Transfer from plant and equipment under lease	155	375	-	-
Depreciation charge for the year	(3,690)	(4,108)	-	-
Impairment	(843)	(263)	-	-
At 30 June, net of accumulated depreciation and impairment	7,827	8,418	-	-

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

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 \$3,973,177 (2009: \$2,332,049) 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 2010 were \$881,489 (2009: \$1,232,277). This amount is offset by the corresponding provision for make good in note 18 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.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
13. INTANGIBLE ASSETS AND GOODWILL				
Customer database	720	720	720	720
Accumulated amortisation	(720)	(720)	(720)	(720)
	-	-	-	-
Software	3,557	3,322	-	-
Accumulated amortisation	(3,310)	(3,010)	-	-
	247	312	-	-
Goodwill	61,655	61,489	-	-
Accumulated amortisation	(7,402)	(7,402)	-	-
	54,253	54,087	-	-
Customer database, software and goodwill	65,932	65,531	720	720
Accumulated amortisation	(11,432)	(11,132)	(720)	(720)
	54,500	54,399	-	-
<i>Customer database</i>				
At 1 July net of accumulated amortisation	-	60	-	60
Additions through the acquisition of entities	-	-	-	-
Amortisation charge for the year	-	(60)	-	(60)
At 30 June net of accumulated amortisation	-	-	-	-
<i>Software</i>				
At 1 July net of accumulated amortisation	312	626	-	-
Additions through the acquisition of entities/businesses	2	-	-	-
Additions	232	126	-	-
Disposals	-	(1)	-	-
Amortisation charge for the year	(299)	(439)	-	-
At 30 June net of accumulated amortisation	247	312	-	-
<i>Goodwill</i>				
At 1 July net of accumulated amortisation	54,087	54,087	-	-
Additions	166	-	-	-
At 30 June net of accumulated amortisation	54,253	54,087	-	-
Total	54,500	54,399	-	-

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

14. IMPAIRMENT TESTING OF GOODWILL

The recoverable amount of the cash generating units has been determined based on financial budgets set for the next financial year and management cashflow projections for subsequent years.

	2010		2009	
	Telecommunication	Computing	Telecommunication	Computing
Pre tax discount rate applied to the cash flow projection	16.8%	16.8%	14.84%	14.84%
Cash flows beyond the next financial year up to year 5, are extrapolated using a growth rate of:				
Revenue	5.0%	8.0%	5.0%	8.0%
Operating costs	2.9-5%	2.9-6%	3.7-5.0%	3.7-6.0%

For the purposes of impairment testing a cash generating unit has been defined as a store, or group of stores, where individual cash flows can be ascertained for the purposes of discounting future cash flows.

Where some, or the entire carrying amount of goodwill is allocated across multiple cash generating units, the amount allocated to each unit is not significant in comparison with the entity's total carrying amount of goodwill.

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Carrying amount of Goodwill allocated to each of the cash generating units or groups of cash generating units:				
Telecommunications	20,442	20,275	-	-
Computing	33,811	33,812	-	-
	54,253	54,087	-	-

Key assumptions used in value in use calculations for the years ended 30 June 2010 and 30 June 2009

The following describes each key assumption on which management has based its cash flow projections when determining the value in use.

- Budgeted sales values – the basis used to determine the value assigned to the budgeted sales volume is the average achieved in the year immediately before the budgeted year, adjusted for known circumstances.
- Budgeted cost of sales values – the basis used to determine the value assigned to the budgeted cost of sales is the average achieved in the year immediately before the budgeted year, adjusted for known circumstances.
- Budgeted operating expenses – the basis used to determine the value assigned to the budgeted costs is the average achieved in the year immediately before the budgeted year, adjusted for known circumstances.
- Terminal value – calculated based on a multiple of estimated Year 5 Earnings before interest, tax, depreciation and amortisation.

Sensitivity to changes in assumptions

Management recognises that there are various reasons that the estimates used in the above assumptions may vary. For all cash generating units, there are reasonably possible changes in key assumptions that could cause the carrying value of the unit to exceed its recoverable amount. The change required to each of the key assumptions to cause the carrying value of a unit to exceed its recoverable amount are shown below:

Assumption	Possible change considered	Change required to cause carrying value of unit to exceed its recoverable amount	
		Telecommunications	Computing
Discount rate	Market related rate variations	Increase 17.6%	Increase 19.8%
Growth rates:			
Revenue	New products on the market, possible new entrants	Decrease 0.8%	Decrease 1.3%
Operating costs	Higher occupancy and/or labour costs	Increase 1.4%	Increase 8.0%

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

15. 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.

The expense recognised in the income statement in relation to share-based payments is disclosed in note 4(e).

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

	2010 No.	2010 WAEP (cents)	2009 No.	2009 WAEP (cents)
Outstanding at the beginning of the year	1,565,000	18.76	2,504,000	18.76
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	313,000	18.76	939,000	18.76
Outstanding at the end of the year	1,252,000	18.76	1,565,000	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 are now exercisable by 23 August 2010.

The exercise price for options outstanding at the end of the year was \$0.1876 (2009: \$0.1876).

The weighted average remaining contractual life for the share options outstanding at the end of the year was 0.2 years (2009: 1.3 years)

Employee Bonus Share Plan

The Remuneration and Nomination Committee is responsible for reviewing the operation of the company'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 plan is administered by the Remuneration and Nomination Committee of the company. 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 company, 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 REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

15. 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 (2009: \$nil).

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
16. TRADE AND OTHER PAYABLES				
<i>Current</i>				
Trade payables (i)	38,226	22,741	-	-
Other payables and accruals	12,342	17,819	-	-
Amounts other than trade payables due to related parties:				
Controlled entities (ii)	-	-	4,107	-
	50,568	40,560	4,107	-
<i>Non-current</i>				
Other payables and accruals	2,782	2,469	-	-
	2,782	2,469	-	-

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

(ii) Related party payables are non-interest bearing.

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 20.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	Maturity	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
17. INTEREST BEARING LOANS AND BORROWINGS					
Current					
Obligations under finance leases (i)	2011	2,168	1,495	-	-
Obligations under hire purchase contracts (i)	2011	194	96	-	-
Commercial bills (ii)	2011	7,692	5,000	7,692	4,000
		10,054	6,591	7,692	4,000
Non-Current					
Obligations under finance leases (i)	2012-2015	4,408	2,836	-	-
Obligations under hire purchase contracts (i)	2012	430	68	-	-
Commercial bills (ii)	2012	-	15,650	-	12,000
		4,838	18,554	-	12,000

(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 10.3% (2009: 8.2%).

The Group's loan and lease facilities are secured under the Group's Deed of Cross Guarantee which is detailed in Note 23(ii).

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% (2009: 8.0% to 9.0%), depending on the type of borrowing.

	Carrying amount		Fair value	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Obligations under finance leases and hire purchase contracts	7,200	4,495	5,975	3,823
Commercial bills	7,692	20,650	7,692	20,650
	14,892	25,145	13,667	24,473

Interest rate and liquidity risk

Details regarding interest rate and liquidity risk are disclosed in note 20.

Financial facilities

The Group has established facilities with the National Australia Bank 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 \$4.6 million of unused master asset finance facilities available for its immediate use.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

18. PROVISIONS

	Employee entitlements \$'000	Make good provision \$'000	Total \$'000
CONSOLIDATED			
At 1 July 2009	4,196	2,543	6,739
Arising during the year	2,133	1,062	3,195
Utilised	(2,091)	(543)	(2,634)
	4,238	3,062	7,300
Current 2010	3,018	1,652	4,670
Non-current 2010	1,220	1,410	2,630
	4,238	3,062	7,300
Current 2009	2,875	965	3,840
Non-current 2009	1,321	1,578	2,899
	4,196	2,543	6,739
	Employee entitlements \$'000	Make good provision \$'000	Total \$'000
PARENT			
At 1 July 2009	-	-	-
Arising during the year	-	-	-
Utilised	-	-	-
	-	-	-
Current 2010	-	-	-
Non-current 2010	-	-	-
	-	-	-
Current 2009	-	-	-
Non-current 2009	-	-	-
	-	-	-

Make Good Provision

In accordance with our contractual obligations under tenancy lease agreements, we are required to restore the leased premises on the expiry of the lease term.

Assumptions used to calculate the provision were based on current assessments of the possible timing of the restoration liability crystallising and on current restoration costs being accreted at rates of 1.5% to 5.0% (2009: 1.5% to 5.0%).

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000

19. CONTRIBUTED EQUITY, RETAINED EARNINGS AND RESERVES

Contributed equity

Ordinary shares Issued and fully paid	12,844	12,844	22,654	22,654
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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.

	CONSOLIDATED		PARENT	
	Number of shares	\$'000	Number of shares	\$'000
At 1 July 2008	141,247,800	12,844	141,247,800	22,654
Treasury shares bought from the market	-	-	-	-
Ordinary shares issued for options exercised	-	-	-	-
At 30 June 2009	141,247,800	12,844	141,247,800	22,654
Treasury shares bought from the market	-	-	-	-
Ordinary shares issued for options exercised	-	-	-	-
At 30 June 2010	141,247,800	12,844	141,247,800	22,654

Share options

The company 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 15).

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

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

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Retained earnings				
Movements in retained earnings were as follows:				
Balance 1 July	24,183	20,177	13,635	16,081
Net profit/(loss) for the year	7,667	5,418	(728)	(1,034)
Dividends	(-)	(1,412)	(-)	(1,412)
Balance 30 June	31,850	24,183	12,907	13,635
Employee equity benefits reserve				
Movements in employee equity benefits reserve were as follows:				
Balance 1 July	2,750	2,672	2,750	2,672
Share-based payments	-	78	-	78
Share options exercised during the financial year	-	-	-	-
Balance 30 June	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, management'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. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management 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 2010, management paid no dividends (2009: \$1,412,478).

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

Management monitor capital 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 2010 and 2009 were as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Total borrowings *	14,892	25,145
Less cash and cash equivalents	(12,477)	(9,850)
Net debt	2,415	15,295
Total equity	47,444	39,777
Net debt plus equity	49,859	55,072
Net debt / (Net debt plus equity) ratio	4.8%	27.8%

* Comprises interest bearing loans and borrowings

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

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

20. 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 17.

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:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Financial Assets				
Cash	12,477	9,850	1,034	55
Term deposits	113	252	-	-
	<u>12,590</u>	<u>10,102</u>	<u>1,034</u>	<u>55</u>
Financial Liabilities				
Commercial bills	(7,692)	(20,650)	(7,692)	(16,000)
	<u>(7,692)</u>	<u>(20,650)</u>	<u>(7,692)</u>	<u>(16,000)</u>
Net Asset / Exposure	4,898	(10,548)	(6,658)	(15,945)

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 2010, 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:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Judgements of reasonably possible movements:				
+1% (100 basis points)	15	(74)	(20)	(112)
- 1% (100 basis points)	(15)	74	20	112

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

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

20. 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 2010. 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 2010.

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

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
1 year or less	40,714	31,123	5,172	5,172
1-5 years	5,610	19,035	8,164	12,164
Over 5 years	-	-	-	-
	<u>46,324</u>	<u>50,158</u>	<u>13,336</u>	<u>17,336</u>

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

21. BUSINESS COMBINATIONS

On 4 August 2009, Fone Zone Pty Limited acquired the license and related net business assets to operate the Telstra Licensed store at Kippa Ring, Queensland.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	76
Total purchase consideration	76
	Fair Value
	\$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventories	26
Plant and equipment	-
Receivables	314
Net deferred tax assets / (liabilities)	(94)
Net identifiable assets acquired	246
Add: Goodwill / (Bargain purchase)	(170)
	76
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	(76)
	(76)

There is no goodwill recognised in this business combination. The bargain purchase position has resulted from the Group being able to benefit from some identified assets not considered readily accessible by the vendor.

Acquisition related costs

Acquisition-related costs of \$24,227 are included in other expenses in the statement of comprehensive income.

Contingent consideration

There are no contingent consideration arrangements in relation to this combination.

Acquired receivables

The fair value of trade and other receivables is \$313,903 and includes an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$313,903. The gross contractual amount for the interest in future trailing income is estimated at \$313,903, of which \$Nil is expected to be uncollectible.

*Revenue and profit contribution**

The acquired business contributed revenues of \$1,628,843 and EBIT of \$68,575 to the group for the period from 4 August 2009 to 30 June 2010.

On the basis of trading results from the date of acquisition to end of financial year, had the business been acquired on 1 July 2009 contributions to the Group for revenue and EBIT is estimated at \$1,801,599 and \$75,848 respectively.

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

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

21. BUSINESS COMBINATIONS (continued)

On 30 October 2009, Fone Zone Pty Limited acquired the license and related net business assets to operate the Telstra Licensed store at North Lakes, Queensland.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	175
Total purchase consideration	175
	Fair Value \$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventories	26
Plant and equipment	82
Receivables	230
Net deferred tax assets / (liabilities)	(69)
Net identifiable assets acquired	269
Add: Goodwill / (Bargain purchase)	(94)
	175
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	(175)
	(175)

There is no goodwill recognised in this business combination. The bargain purchase position has resulted from the Group being able to benefit from some identified assets not considered readily accessible by the vendor.

Acquisition related costs

Acquisition-related costs of \$16,282 are included in other expenses in the statement of comprehensive income.

Contingent consideration

There are no contingent consideration arrangements in relation to this combination.

Acquired receivables

The fair value of trade and other receivables is \$230,118 and includes an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$230,118. The gross contractual amount for the interest in future trailing income is estimated at \$230,118, of which \$Nil is expected to be uncollectible.

*Revenue and profit contribution**

The acquired business contributed revenues of \$1,593,958 and EBIT of \$110,842 for the period from 30 October 2009 to 30 June 2010.

On the basis of trading results from the date of acquisition to end of financial year, had the business been acquired on 1 July 2009 contributions to the Group for revenue and EBIT is estimated at \$2,394,216 and \$166,491 respectively.

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

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

21. BUSINESS COMBINATIONS (continued)

On 4 February 2010 Fone Zone Pty Limited acquired the license and related net business assets to operate the Telstra Licensed store at Mirrabooka, Western Australia.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	137
Total purchase consideration	137
	Fair Value \$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventories	14
Plant and equipment	-
Receivables	130
Net deferred tax assets / (liabilities)	(39)
Net identifiable assets acquired	105
Add: Goodwill / (Bargain purchase)	32
	137
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	(137)
	(137)

Acquisition related costs

Acquisition-related costs of \$12,702 are included in other expenses in the statement of comprehensive income.

Contingent consideration

There are no contingent consideration arrangements in relation to this combination.

Acquired receivables

The fair value of trade and other receivables is \$130,520 and includes an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$130,520. The gross contractual amount for the interest in future trailing income is estimated at \$130,520, of which \$Nil is expected to be uncollectible.

Revenue and profit contribution*

The acquired business contributed revenues of \$626,637 and EBIT of \$4,713 to the group for the period from 4 February 2010 to 30 June 2010.

On the basis of trading results from the date of acquisition to end of financial year, had the business been acquired on 1 July 2009 contributions to the Group for revenue and EBIT is estimated at \$1,566,592 and \$11,782 respectively.

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

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

21. BUSINESS COMBINATIONS (continued)

On 1 June 2010 Fone Zone Pty Limited acquired the license and related net business assets to operate the Telstra Licensed store at Mt Isa, Queensland.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	269
Total purchase consideration	269
	Fair Value \$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventories	13
Plant and equipment	-
Receivables	174
Net deferred tax assets / (liabilities)	(52)
Net identifiable assets acquired	135
Add: Goodwill / (Bargain purchase)	134
	269
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	(269)
	(269)

Acquisition related costs

Acquisition-related costs of \$0 are included in other expenses in the statement of comprehensive income.

Contingent consideration

There are no contingent consideration arrangements in relation to this combination.

Acquired receivables

The fair value of trade and other receivables is \$174,524 and includes an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$174,524. The gross contractual amount for the interest in future trailing income is estimated at \$174,524, of which \$Nil is expected to be uncollectible.

Revenue and profit contribution*

The acquired business contributed revenues of \$197,884 and EBIT of \$47,447 to the group for the period from 1 June 2010 to 30 June 2010.

On the basis of trading results from the date of acquisition to end of financial year, had the business been acquired on 1 July 2009 contributions to the Group for revenue and EBIT is estimated at \$2,490,609 and \$597,177 respectively.

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

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

21. BUSINESS COMBINATIONS (continued)

	2010 \$'000	2009 \$'000
Cash flow information		
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	657	-
Acquisition-related costs	53	-
	710	-
Less: Balances acquired		
Cash	-	-
Bank Overdraft	-	-
	710	-
	710	-

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

22. COMMITMENTS AND CONTINGENCIES

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:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Within one year	11,770	8,168	-	-
After one year but not more than five years	30,969	14,119	-	-
More than five years	3,515	1,045	-	-
	46,254	23,332	-	-

Finance lease commitments

The Group has finance leases for various items of plant and equipment with a carrying amount of \$5,775,315 (2009: \$3,883,000). 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	2,603	1,771	-	-
After one year but not more than five years	4,903	3,104	-	-
Total minimum lease payments	7,506	4,875	-	-
Less amounts representing finance charges	(939)	(547)	-	-
Present value of minimum lease payments	6,567	4,328	-	-

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	246	105	-	-
After one year but not more than five years	496	70	-	-
Total minimum lease payments	742	175	-	-
Less amounts representing finance charges	(118)	(11)	-	-
Present value of minimum lease payments	624	164	-	-

Capital Commitments

There were \$1,537,363 of capital commitments as at reporting date (2009 - \$1,153,700).

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	2,920	3,759	15	45
Other supplier arrangements	4,000	4,000	-	-
	6,920	7,759	15	45

There were no other contingencies as at reporting date (2009 - \$nil).

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

23. 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	
		2010 %	2009 %	2010 \$'000	2009 \$'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	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 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 (Australia) 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		
One Xerro TLS (Gladstone) Pty Ltd	Australia	100	100		
One Xerro TLS (Morayfield) Pty Ltd	Australia	100	100		
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		
<i>Subsidiaries of Communique Holdings Pty Ltd:</i>					
Sansertel Pty Ltd	Australia	100	100		
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		

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.

VITA GROUP LIMITED – ANNUAL REPORT

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

23. RELATED PARTY DISCLOSURES (continued)

(ii) 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.

(iii) 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. \$69,600 of fees (2009: \$Nil) were paid to these companies during the year ending 30 June 2010 for advisory services.

(iv) 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.

	PARENT	
	2010	2009
	\$	\$
<i>Receivables from wholly owned subsidiaries</i>		
Balance 1 July	1,946,688	5,914,307
Loans advanced to subsidiaries (includes cash advances to and payments made by parent on behalf of subsidiaries)	2,765,039	4,255,896
Loans received from subsidiaries (includes cash advances from and payments made by subsidiaries on behalf of parent)	(12,994,247)	(10,388,240)
Income tax payable assumed from wholly-owned tax consolidated entities due to tax consolidation legislation	4,175,255	2,164,725
Balance 30 June	(4,107,265)	1,946,688

Financial Guarantees held by the parent on behalf of other group entities are detailed in note 22.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
24. AUDITORS' REMUNERATION				
The auditor of Vita Group Limited is PricewaterhouseCoopers				
<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	307,500	276,329	-	-
• other services in relation to the entity and any other entity in the consolidated group:				
- tax compliance	37,730	24,080	-	-
- other assurance services	6,000	600	-	-
- transaction advisory services		-		
<i>Amounts received or due and receivable by Ernst & Young:</i>	-	92,476		
	351,230	393,485	-	-

25. 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 company, the results of those operations or the state of affairs of the company or subsequent financial years.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

26. DIRECTOR AND EXECUTIVE DISCLOSURES

a) Details of Key Management Personnel

(i) Directors

R. A. Simpson	Chairman (Independent Non-Executive)
D. L. McMahon	Joint Chief Executive Officer
M. J. Horne	Joint Chief Executive Officer
N. A. Osborne	Director (Independent Non-Executive)
M. F. Snowden	Director (Independent Non-Executive)
D.M. Ryall	Director (Independent Non-Executive) (Appointed 5 March 2010)

(ii) Executives

Peter Connors	Chief Product, Marketing and Technical Officer
Christine Kelly	Chief Financial Officer
Wayne Smith	Chief Organisation Development Officer
Jim Collier	General Manager Mobile Phones – resigned 30 June 2010
Darren Gaunt	General Manager Retail Next Byte – resigned 23 June 2010
Mark Anning	Group Company Secretary and Legal Counsel – appointed 10 November 2009
Wendy Carruthers	General Manager Business Solutions – resigned 28 February 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

	2010 \$	2009 \$
Short-term	2,696,432	2,205,441
Post employment	191,013	189,405
Share-based payments	-	55,099
Long-term benefits	22,081	25,230
Termination benefits	100,777	196,259
	3,010,303	2,671,434

Detailed remuneration disclosures are provided in sections *Remuneration of Key Managers* and *Remuneration of Non-Executive Directors* of the remuneration report on pages 9 to 17.

c) Compensation options: Granted during the year

During the financial year no share options were granted as equity compensation benefits (2009: nil).

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

26. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

d) Options holdings of Key Management Personnel (Consolidated)

	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
	Balance at 1 July 2008	Granted as remuneration	Options exercised	Options forfeited	Balance at 30 June 2009	Vested and exercisable at 30 June 2009
Executives						
Lee Moore	313,000	-	-	-	313,000	313,000
Darren Gaunt	1,252,000	-	-	-	1,252,000	1,252,000
	1,565,000	-	-	-	1,565,000	1,565,000

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

At 30 June 2010 730,333 (2009: 730,333) share options had vested of which Nil (2009: Nil) were exercisable. There were no un-exercisable vested options at 30 June 2010 (2009: Nil).

The options were granted on 2 November 2005 and the weighted average fair value of options on issue during the year was \$0.72 (2009: \$0.72).

* These final outstanding vested and exercisable options were exercised by 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.

e) Shareholdings of Key Management Personnel (Consolidated)

<i>Shares held in Vita Group Limited</i>	Balance at 30 June 2009	Purchased	Acquired under non-executive director share plan	On exercise of options	Sold	Balance at 30 June 2010
Directors						
R.A. Simpson	97,759	68,026	-	-	-	165,785
D.L. McMahon *	55,796,535	8,474,868	-	-	-	64,271,403
M.J. Horne *	55,796,535	8,474,868	-	-	-	64,271,403
N.A. Osborne	101,200	57,142	-	-	-	158,342
M.F. Snowden	-	-	-	-	-	-
D.M. Ryall	-	-	-	-	-	-
Executives						
Jim Collier	-	-	-	-	-	-
Peter Connors	-	70,000	-	-	-	70,000
Darren Gaunt	22,000	-	-	-	-	22,000
Christine Kelly	-	-	-	-	-	-
Lee Moore	627,000	-	-	-	627,000	-
Dave Rundle	-	-	-	-	-	-
Wayne Smith	-	-	-	-	-	-
Mark Anning	-	-	-	-	-	-

* D.L. McMahon and M.J. Horne have a beneficial interest in a holding of 64,269,403 shares, and each has a direct holding of 1,000 shares.

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Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2010

26. 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 (2009: \$nil).

g) Other transactions and balances with Key Management Personnel

Details of other transactions with Key Management Personnel are in Note 23 Related party disclosure.

h) Disclosure statement

The company has applied the exemption under Corporations Amendments 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.

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Directors' Declaration

In accordance with a resolution of the directors of Vita Group Limited, I state that:

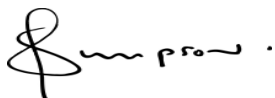
In the opinion of the directors:

- (a) the financial statements and notes set out on pages 26 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 company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company 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 23 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 23.

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 chief executive officer 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.



R.A. Simpson
Chairman

Brisbane
27 August 2010



D.L. McMahon
Director and Joint Chief Executive Officer

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

Report on the financial report

We have audited the accompanying financial report of Vita Group Limited (the company), which comprises the balance sheet as at 30 June 2010, and 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 both Vita Group Limited and the Vita Group (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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), 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 Limited (continued)**

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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 Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their 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 consolidated financial report and notes, and the parent entity financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2(b).

Report on the Remuneration Report

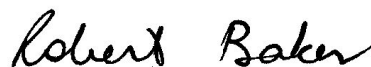
We have audited the remuneration report included in pages 9 to 17 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our 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 Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Robert Baker
Partner

Brisbane
27 August 2010

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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 13 August 2010.

(a) Distribution of equity securities

(i) Ordinary Share Capital

141,247,800 fully paid ordinary shares are held by 1,801 individual Shareholders.

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

(ii) Options

1,252,000 options are held by a single option holder.

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	440	249,760	0.18
1,001 – 5,000	476	1,559,725	1.10
5,001 – 10,000	317	2,663,858	1.89
10,001 – 100,000	477	16,049,911	11.36
100,001 and over	91	120,724,546	85.47
	1,801	141,247,800	100.00
Shareholdings of less than a marketable parcel			
Holdings of less than 1,961 shares	513	359,041	0.25

(b) Twenty largest holders of quoted equity securities

Ordinary Shareholders	Fully paid	
	Number	Percentage
FZIC PTY LTD	56,342,124	39.89
COGENT NOMINEES PTY LIMITED	10,634,093	7.53
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOLED A/C>	10,329,635	7.31
FZIC PTY LTD <MCMAHON SUPER FUND A/C>	7,817,807	5.53
KAVEL PTY LTD	5,366,666	3.80
IWPE NOMINEES PTY LTD <MZL OPPORTUNITY FUND A/C>	1,683,333	1.19
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C>	1,528,832	1.08
MOAT INVESTMENTS PTY LTD <MOAT INVESTMENT A/C>	1,500,000	1.06
ANZ NOMINEES LIMITED <CASH INCOME A/C>	1,311,403	0.93
IWPE NOMINEES PTY LTD <ANF INVESTEC BANK(AUS)LTD AC>	1,177,037	0.83
MOAT INVESTMENTS PTY LTD <MOAT INVESTMENT A/C>	1,143,544	0.81
AUST EXECUTOR TRUSTEES NSW LTD <TEA CUSTODIANS LIMITED>	1,085,000	0.77
MRS PAULA STAAL	1,001,110	0.71
JAMBER INVESTMENTS PTY LTD <THE AMBER SCHWARZ FAM A/C>	1,000,000	0.71
PRIUS HEALTHCARE SOLUTIONS PTY LTD	835,172	0.59
BELL CO PTY LTD <RICHARD BELL FAMILY A/C>	825,000	0.58
NBPC PTY LTD	751,334	0.53
MR PETER JOHN STIRLING + MRS ROSALIND VERENA STIRLING	712,200	0.50
GERNIS HOLDINGS PTY LIMITED	550,000	0.39
MR DEREK PHILIP CURTIN + MRS JOAN CLAIRE CURTIN <CURTIN SUPER FUND A/C>	540,000	0.38
Top 20 holders of ORDINARY FULLY PAID SHARES	106,134,290	75.14

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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 13 August 2010 were:

Ordinary Shareholders	Fully paid	
	Number	Percentage
FZIC Pty Ltd	64,271,403	45.503%
National Australia Bank Limited	8,954,881	6.340%
TOTAL	73,226,284	51.843%

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