



**vita**<sup>TM</sup>  
GROUP LIMITED

**Vita Group Limited**

**ABN 62 113 178 519**

**Financial Report**

**for the year ended 30 June 2017**



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## CORPORATE GOVERNANCE AND INFORMATION

ABN 62 113 178 519

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

Vita Group's corporate governance policies and practices are publicly available in the corporate governance charter on the Group's website at <http://www.vitagroup.com.au/script/suc.corporate-governance.asp>. All policies and practices were in place for the year. Refer to Vita Group's website for further information on policies that have been approved and adopted by the board.

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 page 4 to 7.

### Directors

Dick Simpson (Independent Non-Executive Chairman)  
Maxine Horne (Chief Executive Officer)  
Neil Osborne (Independent Non-Executive Director)  
Robyn Watts (Independent Non-Executive Director)  
Paul Wilson (Independent Non-Executive Director)

### Company Secretary

Mark Anning

### Registered Office and Principal Place of Business

Vita Place  
Level 3, 77 Hudson Road  
Albion QLD 4010  
Australia  
Telephone: +61 7 3624 6666  
Facsimile: +61 7 3624 6999  
Website: [www.vitagroup.com.au](http://www.vitagroup.com.au)

### Share Registry

Computershare Investor Services Pty Limited  
117 Victoria Street  
West End QLD 4101  
Australia  
Telephone: 1300 552 270 (Toll-free within Australia)  
Telephone: +61 7 3237 2100  
Facsimile: +61 7 3237 2152  
Website: [www.computershare.com.au](http://www.computershare.com.au)

### Australian Securities Exchange (ASX) Listing

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

### Solicitors

Minter Ellison Lawyers  
Brisbane, Australia

### Bankers

ANZ Bank Limited  
Brisbane, Australia

### Auditors

Grant Thornton Audit Pty Ltd  
Brisbane, Australia

# DIRECTORS' REPORT

30 JUNE 2017

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Your Director's submit their report for the year ended 30 June 2017.

## DIRECTORS

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

Dick Simpson (Independent Non-Executive Chairman)  
Maxine Horne (Chief Executive Officer)  
Neil Osborne (Independent Non-Executive Director)  
Robyn Watts (Independent Non-Executive Director)  
Paul Wilson (Independent Non-Executive Director)

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

### **Dick Simpson** **Independent Non-Executive Chairman**

Dick brings considerable experience to the board and has held Chief Executive Officer roles in both the Telecommunications and Computing industries. Dick started his career in the information technology sector, spending 20 years with IBM and then Unisys, in both Australia and the USA. He then joined Optus, was Chief Operating Officer at NRMA and subsequently joined Telstra, where he was Group Managing Director, Mobiles. He moved to Hong Kong as President Telstra International where he was also Chairman of CSL (Hong Kong's biggest mobile carrier), Telstra Clear and REACH (Asia's largest international operator).

Dick became a Director of Vita Group in September 2005, and has served on the Remuneration & Nomination Committee, and the Audit, Compliance & Risk Committee. He is an advisor to the board of Tibra Capital (a private company), is a Director of Chevalier College in Bowral, NSW, is the Chairman of the Chevalier Foundation and is an advisor to several private and public companies.

### **Maxine Horne** **Chief Executive Officer**

Since founding the company with one store in 1995, Maxine has guided the transformation of the Group. She is responsible for the strategic and operational direction of the business and leads the Group Leadership Team. Her focus is on achieving results through the development of the Group's people and culture.

Prior to forming Vita Group in 1995, Maxine gained significant global telecommunications experience in sales, customer service, leadership and operational roles in the UK and Australia.

Maxine was named QBR Business Woman of the Year, Retail in 2006 and received the 2014 Entrepreneur of the Year award for the industry category, Northern region.

In 2016, Maxine was inducted into the Businesswoman's Hall of Fame, and released her biography, *Think Smart, Run Hard*.

### **Neil Osborne** **Non-Executive Director**

Neil was formerly a partner with one of the world's largest consulting and technology services firms, Accenture. He has over 35 years' experience in the retail industry and has held a variety of senior executive positions with Myer and Coles Myer Ltd (CML) in corporate and operating roles across finance, supply chain, strategic planning and merchandising, including the positions of Myer Chief Operating Executive (Chief Financial Officer and Supply Chain) and CML Group General Manager, Retail Services (Marketing, Strategy and Property).

Neil is Chairman of Foodworks Ltd (independent supermarkets) and a Non-Executive Director of Beacon Lighting Group Limited (ASX:BLX). Neil previously held office as Director of Lovisa Holdings Limited (ASX:LOV) until 17 November 2015.

Neil is a Certified Practising Accountant (CPA) and a fellow of the Australian Institute of Company Directors (FAICD).

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

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### DIRECTORS (CONTINUED)

#### Robyn Watts Non-Executive Director

Robyn has over 26 years of experience as CEO of various businesses in the global media sector, most recently as CEO of ABC Enterprises at the Australian Broadcasting Corporation, where she was responsible for leading and managing ABC Shops, ABC Consumer Publishing and ABC Resource Hire. Previously Robyn was CEO of Southern Star Sales for the Southern Star Group.

Robyn is a Company Director specialising in business strategy and marketing to customer and client facing organisations. Her executive and non-executive experience in private and publicly listed organisations spans a range of industry sectors including media, retail, telecommunications, entertainment, tertiary education, film, television and design. She is a Non-Executive Director of Forty Winks Pty Ltd, Geyer Pty Ltd and Australian School of Performing Arts Pty Ltd and she sits on the board of Governors for ANU Endowment, Tropfest Australia Ltd and Camp Quality. Robyn is also a mentor through Women on Boards.

Robyn is a fellow of the Australian Institute of Company Directors and completed the AICD's ASX 200 Chairman's Mentoring Program in 2011 and 2012.

Robyn became a Director of Vita Group in November 2011, and is a member of the Audit, Compliance and Risk Committee, and Chair of the Remuneration and Nomination Committee.

#### Paul Wilson Non-Executive Director

Paul is a co-founder and Director of ASX listed Bailador Technology Investments Ltd (ASX:BTI), which focuses on expansion capital opportunities in the information technology sector. This role provides Paul with exposure to the most up to date approaches and business models to take advantage of the rapidly changing technology landscape.

Paul's business background includes senior positions with leading private equity house, CHAMP, the media focused investment house, Illyria, and with MetLife Investments in London.

Paul's other current board positions are: Chairman of SiteMinder, (cloud based hotel inventory distribution); Director of Viocorp (online video enablement); Director of Stackla, (user generated content platform); Director of Straker Translations; Director of Yellow Pages New Zealand; and Director of the Rajasthan Royals Indian Premier League cricket franchise.

Paul is a fellow of the Financial Services Institute of Australia, a qualified Chartered Accountant, and a member of the Australian Institute of Company Directors. Paul became a Director of Vita Group in May 2014, and is a member of the Audit, Compliance & Risk Committee, and the Remuneration & Nomination Committee.

### DIRECTORS MEETINGS

As at the date of this report, the Company has two committees of the board, an Audit Compliance and Risk Committee, and a Remuneration and Nomination Committee.

The members of each committee during the year were:

<b>Audit, Compliance &amp; Risk Committee</b>	<b>Remuneration &amp; Nomination Committee</b>
Neil Osborne (c)	Robyn Watts (c)
Dick Simpson	Dick Simpson
Robyn Watts	Neil Osborne
Paul Wilson	Paul Wilson

**Note** (C) Designates the Chairperson of the Committee

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:

Name	Vita Group Board		Audit, Compliance & Risk Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B
Dick Simpson	17	17	4	4	3	3
Maxine Horne	17	17	*	*	*	*
Neil Osborne	17	17	4	4	3	3
Robyn Watts	17	17	4	4	3	3
Paul Wilson	17	17	4	4	3	3

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

\* = Not a member of the relevant committee

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### COMPANY SECRETARY

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

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

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

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

He is a fellow of Governance Institute of Australia, and ICASA, and former Deputy Chairman of Queensland State Council.

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

### DIVIDENDS

	Cents	\$'000
Final dividend for the year ended 30 June 2016		
- on ordinary shares	8.21	12,450
Interim dividend for the year ended 30 June 2017		
- on ordinary shares	9.20	13,981
		<b>26,431</b>

Since the end of the financial year, the Directors have approved the payment of a final fully franked ordinary dividend of \$11,292,380 (7.40 cents per fully paid share) to be paid in September 2017 (FY16: \$12,449,526). Record date for the final dividend will be 15 September 2017, with payment date being 29 September 2017.

### PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the marketing and selling of communication and technology solutions through its Telstra store network and to business customers through its small to medium business (SMB) and government and enterprise brand Vita Enterprise Solutions (VES). There were no significant changes in the nature of the Group's activities during the year.

# DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

## OPERATING AND FINANCIAL REVIEW

### Highlights

Vita Group reported a record result for the twelve months to 30 June 2017. The Group delivered a 5 per cent increase in revenues from continuing operations to \$674.6m. Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations was \$65.0m, up 5 per cent on underlying EBITDA in the prior year. Net profit after tax (NPAT) from continuing operations was \$39.0m, up 11 per cent on underlying NPAT in the prior year. There were no underlying adjustments to FY17 earnings from continuing operations. Prior year underlying earnings from continuing operations excluded a \$4.0m non-cash benefit (pre-tax) relating to a contribution from the group's now discontinued ESP swap and warranty products.

Strong earnings coupled with tight management of working capital contributed to operating cash flows after tax of \$52.5m, up 7 per cent. Vita invested \$20.7m in acquisitions, refits and technology solutions, whilst financing outflows were \$26.6m, primarily reflecting dividends paid in the year. Vita also received \$5.0m from the proceeds of a maturing term deposit. As a result, cash balances improved by \$10.3m to \$29.7m at the end of the period, providing Vita with significant balance sheet flexibility to invest in growth opportunities in line with its strategy.

Vita's portfolio, as at 30 June 2017, included 105 Telstra Licensed Stores, 21 Telstra Business Centres and one Fone Zone store. The Group added eight Telstra retail stores to the portfolio in FY17, closed one Fone Zone store and two Telstra retail stores, the latter of which occurred under a commercial arrangement between Telstra and Vita. As communicated on Friday, 11 August, Vita has also extended its agreement with strategic partner, Telstra, which will see the number of stores Vita is able to own and operate expand to 110 in FY18 and 115 in FY20.

The Board declared a fully franked final dividend of 7.4 cents per share (cps), resulting in a fully franked dividend for the full-year of 16.6 cps, an increase of 19 per cent on the prior year, with a payout ratio of 65 per cent. The dividend is to be paid on 29 September 2017 to shareholders on record as at 15 September 2017.

### Group Results

Group revenues from continuing operations grew 5 per cent to \$674.6 million during the year. EBITDA from continuing operations, a measure used by the Group as a proxy for cash profitability, decreased slightly, by 1.6 per cent to \$65.0 million in the year. After adjusting for a \$4.0 million benefit relating to the Group's now discontinued proprietary swap and extended warranty products in FY16, underlying EBITDA from continuing operations for the year was up 5 per cent to \$65.0 million.

A reconciliation of underlying EBITDA from continuing operations to the reported profit before tax from continuing operations in the consolidated statement of comprehensive income is tabled below:

	FY17 \$M	FY16 \$M
Profit before tax from continuing operations	54.7	53.8
Add: net finance costs	0.8	1.0
Add: depreciation and amortisation	9.5	11.2
Less: non-cash benefit of discontinued proprietary products	-	(4.0)
<b>Underlying EBITDA from continuing operations</b>	<b>65.0</b>	<b>62.0</b>

### Year in review

Vita's retail information and communication technology (ICT) channel delivered a 2 per cent lift in revenue and a 1 per cent increase in EBITDA, despite like-for-like revenue declining 5 per cent as a result of remuneration reductions, mainly impacting in the second half. The impact of remuneration reduction was offset by an increased focus on consultative solution-selling, enabling multi-product sales and a reduction in performance variation across the network. In addition, the physical optimisation of the portfolio delivered significant benefit during the period with Vita ending the year with 105 Telstra-branded retail stores. The Group's One Zero brand was retired at the end of the financial year, in line with Vita's strategy within the telecommunications sector, to focus on the Telstra brand.

Revenues from Vita's small-to-medium business (SMB) and enterprise channels rose 20 per cent, and whilst the EBITDA result was modest in the context of group earnings, growth in relative terms was significant. This again reflected the Group's growing capability in consultative-selling and providing value for customers. This was supported by the Group's investment in the salesforce™ platform, which enables the management of end-to-end customer journeys, from managing the sales pipeline, through to the consulting process, and into post-sales service. The Group also rolled out its proprietary XLR8™ journal technology into its business channels, following its success in the retail channel. This technology facilitates improved performance management, coaching and talent development, via a single digital solution.

Vita decided at the end of FY17 to consolidate the SMB and enterprise channels into one business ICT division, reflecting the growing importance of ICT across all customer segments. With the business channels now representing 13 per cent and 15 per cent of the Group's revenue and gross profit respectively, the focus in the coming year and beyond will be to continue to grow revenues, deliver improved profitability and partner with Telstra to drive consolidation in what remains a fragmented market.



# DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

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## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Group Results (continued)

#### Year in review (continued)

Vita's accessories brand Sprout reported another exceptional result for FY17 with revenues up 30 per cent. The brand continued to make significant headway in the business-to-business (B2B) sector, reporting a 75 per cent increase in B2B revenue.

In the second half of FY17, the Board conducted a review of capital management options, with the benefit of independent advice, with a view to optimise returns for all shareholders over time. The review took into account the capital requirements of existing and new businesses, capital structure and taxation considerations, and capital distribution alternatives. Whilst capital management considerations are ongoing, the Board concluded that it would maintain a 65 per cent payout ratio of profits after tax; that a stable dividend policy was preferred over short-term initiatives such as a share buy-back; and that financial flexibility would be maintained to support growth initiatives.

#### Balance Sheet

The Group generated \$52.5 million in operating cash flows after interest and tax reflecting strong cash collections. Capital investment was \$20.7 million, down on prior year reflecting fewer acquisitions and store refits. Dividends of \$26.4 million were paid and \$3.7 million of new share capital was issued through the Dividend Reinvestment Plan. Gross debt decreased by \$3.9 million to \$11.9 million at year end, and cash balances including term deposits were \$5.2 million higher than the previous year leaving a net cash position of \$17.8 million (cash and current term deposits \$29.7 million less debt \$11.9 million) at year end.

#### Dividends

The board approved a total ordinary dividend for the year of 16.6cps, fully franked, which represents an increase of 19 per cent on the prior year (FY16:13.97cps) and a payout ratio of 65 per cent of profits after tax. The interim dividend paid in the year was 9.2cps (FY16: 5.76cps).

The Dividend Reinvestment Plan was re-established in FY15, allowing eligible shareholders the flexibility to re-invest ordinary dividends in Vita Group shares.

The record date for the ordinary dividend is 15 September 2017 with payment to be made on 29 September 2017.

#### Outlook

Vita and Telstra's recently agreed changes to the terms of Vita's Master Licence Agreement relating to tenure, remuneration and an immediate expansion of its allowable store footprint, are all aimed at delivering long-term benefits for both parties.

The tenure of the agreement will now extend to 30 June 2023, with rolling annual extensions after this date. This is subject to annual review, which will include Vita's performance against key metrics. A minimum of three-year's notice is to be provided by either party, should they wish to cease the agreement at the relevant expiry date. This effectively means that, assuming extensions are granted annually, forward tenure will always be at least five years.

On remuneration, Telstra confirmed that it was comfortable with the model of remuneration applicable for FY18, reflecting changes made up to and including 1 July 2017. It also clarified that it had made no specific decisions about any remuneration changes beyond FY18. Whilst Telstra retains the right to amend remuneration up or down to reflect changing market conditions and product life-cycle changes, the current remuneration model balances prevailing industry conditions with the economic health of the licensee channel.

On retail store footprint, the parties agreed an immediate expansion in the allowable number of stores Vita can own and operate to 110, which takes effect from now. Effective from 1 July 2019, Vita agreed to forego some legacy remuneration components, amounting to approximately 7 - 8 per cent of retail remuneration, which will be partly offset by a further expansion to 115 stores from this date. As currently applies, all movements in and out of the footprint will be subject to Telstra approval. These measures reflect the confidence Telstra continues to place in Vita to deliver results and means that Vita is well positioned to deliver long-term value to all of its stakeholders, including customers, its team members, and of course, Telstra and its shareholders.

Whilst remuneration impacts in FY17 and FY18 will impact FY18 earnings, they are necessary in aligning remuneration with the value Telstra derives from its core product categories. Importantly, Vita and Telstra have agreed a framework that both parties are comfortable with.

There will be several initiatives that will soften the impact of the remuneration changes. Firstly, an expansion in the number of stores Vita can own and operate to 110 will deliver benefits, along with Vita's continued optimisation program, in line with Telstra's strategy to create a geo-clustered network of stores.

A point of differentiation is Vita's ability to consult with customers and provide insights to deliver greater value for the customer and this will be central to Vita's strategy in FY18 to drive up-sell and cross-sell, in both the retail and business channels. In addition, there will be an ongoing focus on reducing performance variability, which will benefit productivity.

In business, Vita will continue to work with Telstra on the go-to-market approach for business customers, driving further consolidation in what remains a fragmented market leveraging scale now in place to drive growth. This will include collaboration between Vita's business and retail channels, such as embracing small office/home office (SOHO) customers in retail.

# DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### Outlook (continued)

Vita has also implemented a number of initiatives to reduce its cost base. The consolidation of the SMB and enterprise channels implemented at the end of FY17 will deliver greater efficiency in FY18. Cost reductions were also made in Vita's support functions. The Group will continue to look for opportunities to simplify and automate processes, and manage the business as efficiently as is practical.

Vita will also continue to explore new opportunities for growth in new categories, leveraging its core capability of solution selling. Work is underway to evaluate entry opportunities and the Group expects to report progress on this initiative in FY18.

### Shareholder Returns

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

	FY17	FY16
Basic earnings per share (cents)	25.91	23.37
Underlying earnings per share* (cents) from continuing operations	25.62	23.29
Net debt / (Net debt plus equity)**	(26.5%)	(14.6%)

\* Excludes amortisation of proprietary products.

\*\* Includes term deposits.

The share price at 30 June 2017 was \$1.11 (FY16: \$4.11).

### Review of Financial Condition

The consolidated statement of cash flows shows an operating cash flow of \$52.5 million, compared to the previous year of \$49.1 million. Cash and cash equivalents (including term deposits) at 30 June 2017 was \$29.7 million, compared to \$24.4 million at the end of the previous year.

### Profile of debts

	FY17 \$'000	FY16 \$'000
<b>Current</b>		
Obligations under chattel mortgage	1,155	-
Term debt	6,870	11,536
	<b>8,025</b>	<b>11,536</b>
<b>Non-current</b>		
Term debt	3,907	4,249
<b>Total</b>	<b>11,932</b>	<b>15,785</b>

The Group sources the majority of its funds from operations and from facilities provided by the ANZ Bank. The board considers the current level of net debt including term deposits/(net debt, including term deposits plus equity) in the Group of (26.5%) to be within acceptable limits.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

### SIGNIFICANT EVENTS AFTER BALANCE DATE

The Group has concluded negotiations with strategic partner, Telstra (ASX:TLS), and agreed some changes to the terms of its Master Licence Agreement relating to tenure, remuneration and an immediate expansion of its allowable store footprint. Details of this agreement were announced to the ASX on 11 August 2017.

There have been no other significant matters or circumstances not otherwise dealt with in this report affecting the operation of the Group or its results.

### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

### ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors Report) Instrument 2016/191, issued by ASIC, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with this Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

# DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

## REMUNERATION REPORT (AUDITED)

### Introduction

This Remuneration Report outlines the Board's approach to executive remuneration in general, and specifically the link between the performance of the company and remuneration outcomes for the Group's Key Management Personnel (KMP) for the year ended 30 June 2017.

### Key Management Personnel

For the purposes of this report, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group. In this report "Executives" refers to the KMP excluding the Non-Executive Directors.

The information provided in this remuneration report has been audited as required by Section 308 (3C) of the Corporations Act 2001.

The KMP of the Group for the year ended 30 June 2017 were:

Key Management Personnel	Position
<b>Directors</b>	
Dick Simpson	Chairman (Independent Non-Executive Chairman)
Maxine Horne	Chief Executive Officer and Executive Director
Neil Osborne	Director (Independent Non-Executive)
Paul Wilson	Director (Independent Non-Executive)
Robyn Watts	Director (Independent Non-Executive)
<b>Executives</b>	
Andrew Leyden	Chief Financial Officer
Chris Preston	Chief Marketing Officer (resigned 18 November 2016)
Kendra Hammond	Chief People Officer
Mark Anning	Group Company Secretary and Legal Counsel
Peter Connors	Chief Operating Officer

### Remuneration & Nomination Committee

The Remuneration & Nomination Committee is responsible for ensuring Vita Group has remuneration strategies and frameworks in place that enhance corporate and individual performance, whilst having regard for legal compliance and corporate governance requirements.

Further detail on the Committee's responsibilities is set out in the charter available at:

<http://www.vitagroup.com.au/script/cus/corporate-governance.asp>

The Remuneration and Nomination Committee comprises four Non-Executive Directors including the Committee Chairman. The Chairman of the Board 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. Attendance at meetings of the committee are by invitation. Standing invitations are in place for the Chief Executive Officer and the Chief People Officer, while other Executives have attended as appropriate from time to time.

### Protection Arrangements

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

Further details on the Group's share trading policy are available at:

<http://www.vitagroup.com.au/script/cus/corporate-governance.asp>

### Remuneration Consultants

The Committee has protocols in place to ensure that any advice is provided in an appropriate manner and is free from undue influence of management.

During the year the Committee did not engage any external consultants in regards to remuneration recommendations for purposes of the Corporations Act.

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### AGM Results

The Group received more than 97.62% of “yes” votes on its 2016 Remuneration Report. The Group did not receive any other feedback at the AGM or throughout the year on its remuneration practices.

#### Group Performance

Revenue and profit and loss figures for the current year, and the four prior years are as follows:

	FY17	FY16	FY15	FY14	FY13
	\$M	\$M	\$M	\$M	\$M
Revenue	674.7	670.3	601.4	450.1	434.7
Profit for the year attributable to owners	39.4	35.4	25.4	(4.6)	6.2
Dividends declared					
Ordinary (cps)	16.60	13.97	7.98	4.64	2.83
Special (cps)	-	-	8.00	-	-
	<b>16.60</b>	<b>13.97</b>	<b>15.98</b>	<b>4.64</b>	<b>2.83</b>
	\$	\$	\$	\$	\$
Basic earnings per share	25.91	23.37	17.40	(3.26)	4.35
Underlying earnings per share from continuing operations*	25.62	23.29	13.14	8.53	6.07
<b>Total shareholder return</b>					
	\$	\$	\$	\$	\$
Share price beginning of year	4.11	1.70	0.74	0.62	0.25
Share price end of year	1.11	4.11	1.70	0.74	0.62
Dividends paid per share	0.17	0.12	0.13	0.04	0.02
Total shareholder return %	(69%)	149%	147%	26%	156%

The discontinued operation is included in the above table.

\* Underlying earnings per share excludes amortisation of proprietary products (FY14-FY16) and impairment of Next Byte (FY14).

# DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Remuneration Framework

The Group's focus to "Get, Grow and Keep" great people is integral to our strategic growth, and as such our remuneration practices are central to this strategy.

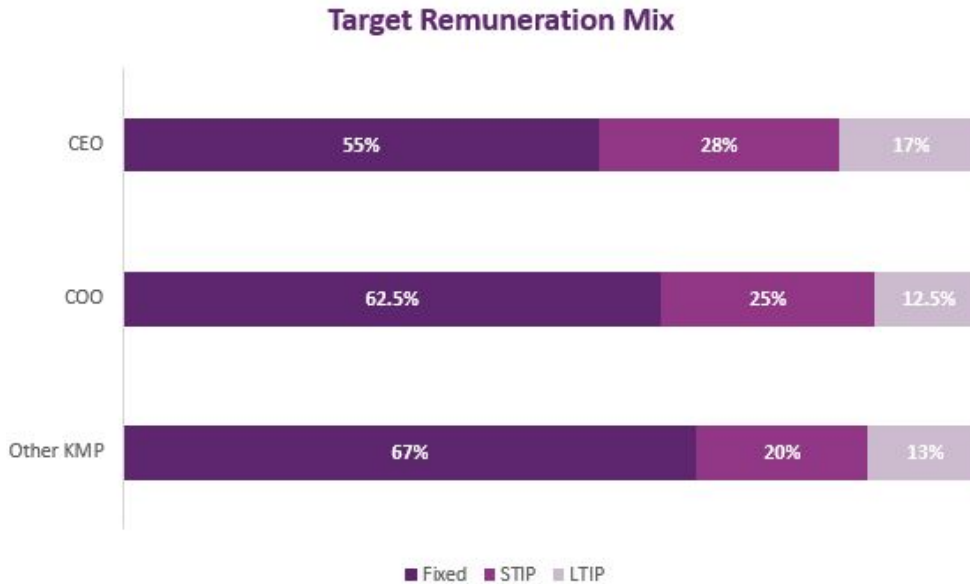
The purpose of the Remuneration Framework is to ensure remuneration outcomes are linked to the Group's performance and aligned with shareholder interests. The Executive remuneration framework is set out below:

REMUNERATION FRAMEWORK	
COMPONENT	LINK TO STRATEGIC OBJECTIVES
<b>Fixed Pay</b>	<p>Remuneration is set competitively to attract, motivate and retain the right people to deliver optimal performance outcomes for the Group across its businesses and support services. Consideration is given to the employee's experience and skills in determining fixed pay.</p> <p>Regular market reviews are undertaken to ensure the Group is competitive in its remuneration for senior and critical roles, and a systematic methodology is utilised to ensure consistent and equitable pay arrangements are in place for all roles within the Group.</p>
<b>Short Term Incentive Plan (STIP)</b>	<p>The STIP is designed to align remuneration with the achievement of the Group's business objectives over the short term. KMP and a number of select team members are eligible to participate in the STIP.</p> <p>Both financial and non-financial KPIs determine the STIP outcomes:</p> <ul style="list-style-type: none"> <li>• EBITDA is the chosen financial measure to ensure participants are focused on increasing revenue and cash profits through both organic growth and acquisitions, thus driving increased shareholder value. To encourage outperformance, stretch STI payments are available for the achievement of exceptional financial results, up to 150% of budgeted EBITDA.</li> <li>• Individual KPIs - are appropriately chosen for individual's role responsibilities based on specific performance goals. The individual performance measures ensure our team are rewarded for demonstrating behaviours consistent with our Group's values to achieve short and long-term strategic objectives.</li> </ul>
<b>Long Term Incentive Plan (LTIP)</b>	<p>The LTIP ensures a strong link with increasing shareholder value over the long-term.</p> <p>In FY16, NPAT was chosen as the most appropriate performance measure for the LTIP:</p> <ul style="list-style-type: none"> <li>• NPAT ensured continued focus on delivering consistent growth in Group profits;</li> <li>• In addition, the three-year vesting period ensured the LTIP supports the retention of managerial talent;</li> <li>• The FY16 LTIP cash benefit will continue to vest until completion in FY19.</li> </ul> <p>In FY17, the current LTIP was introduced and is assessed based on achievement against two performance measures:</p> <ul style="list-style-type: none"> <li>• EPS, chosen as it provides clear line of sight between pay and individual performance;</li> <li>• Relative Total Shareholder Return (TSR) was chosen as it is a relative, external market performance measure and has regard to the Group's peers.</li> </ul> <p>Commencing FY17, the LTIP will be delivered in the form of equity, to ensure executive reward is aligned with shareholder value.</p>
<b>Total Remuneration</b>	<p>The remuneration mix is structured to reward executives, both for Group performance and for individual personal performance. The stretch element of the STI is designed to encourage executives to strive for exceptional financial performance, and ensure emphasis on 'at-risk' reward.</p>

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Remuneration Mix**

The Group's target mix of fixed and "at risk" components for Executives, expressed as a percentage of total reward, is as follows:



**Fixed Remuneration**

Total Fixed remuneration ("TFR") is comprised of cash salary, salary sacrifice items, superannuation and non-cash benefits where provided. In order to attract, motivate and retain high calibre employees, fixed pay is targeted at the 50th to 75th percentile of a peer group deemed comparable by the Remuneration and Nomination Committee and upon which it seeks independent advice.

Each KMP's TFR is reviewed annually by the Remuneration & Nomination Committee, taking into account Group and individual performances as well as external remuneration market data. In the prior year, the Committee engaged KPMG to undertake an independent benchmarking exercise relating to KMP fixed and variable remuneration the results of which continue to be utilised going forward.

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Short Term Incentive Plan (STIP)

The STI component of remuneration consists of a cash bonus. The amount of bonus paid is determined based on a balanced scorecard of financial and non-financial measures to ensure delivery of the Group's critical business objectives.

STI COMPONENT	
<b>Objective</b>	Support the Group's strategic objectives by rewarding executives for driving and exceeding Vita's annual financial performance plan.
<b>Eligibility</b>	Executives and selected senior leaders
<b>Instrument</b>	Cash
<b>Opportunity</b>	CEO: 50% of FAR* COO: 40% of FAR* Other KMP: 30% of FAR*
<b>Performance Period</b>	1 July 2016 - 30 June 2017
<b>Performance Measures</b>	Group EBITDA and individual performance rating for the period determine the amount, if any, of STI that is paid to each participant.
<b>Gateway</b>	Threshold Group EBITDA of 95% of the target must be achieved before any STI may be paid.  The Board retains discretion to permit some or all the STI to vest where threshold performance has not been achieved. This discretion is only exercised in exceptional circumstances as the Board deems appropriate. Threshold EBITDA performance was achieved in FY17.
<b>Assessment of Performance</b>	The amount of STI payable is calculated based on: <ul style="list-style-type: none"> <li>• EBITDA multiplier - based on performance against the Group's pre-determined annual EBITDA budget. EBITDA was chosen as the primary driver of STI outcomes to ensure continued focus on achieving growth in operating earnings, delivering sustainable financial returns to shareholder; and</li> <li>• Individual performance rating - as reviewed by the CEO or Remuneration Committee and moderated by the Board as part of the annual performance review process. Individual KPIs reflect the individual's role and responsibilities, and include financial and non-financial KPI's.</li> </ul> <p>To encourage outperformance, above target STI payments are available where outstanding individual performance and exceptional EBITDA results are achieved. Above target STI payments are only available where the Group's EBITDA exceeds budget and where the executive receives an exceptional performance rating, as measured by the achievement of KPIs.</p>

\* Fixed Annual Reward ("FAR") includes base salary and superannuation only.

#### 2017 STIP Outcomes

For the 2017 financial year, the Board set both Group and individual performance measures for the CEO, which were substantially cascaded by the CEO to senior executives. The Board has reviewed both Group and individual performance, and is satisfied that STI payments for 2017 reflect the Group's results and appropriately rewards executives for their performance.

The table below outlines the 2017 STI payments for each KMP.

KMP Name	Target STIP Opportunity \$	Actual Achievement \$	% Target Achieved
Maxine Horne	425,000	425,000	100%
Andrew Leyden	174,000	191,400	110%
Chris Preston (resigned 18 November 2016)	-	-	-
Kendra Hammond	105,000	115,500	110%
Mark Anning	99,000	99,000	100%
Peter Connors	232,000	255,200	110%

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Long Term Incentive Plan (LTIP)

In line with the Group's remuneration policy, the Board undertake frequent reviews of the remuneration framework and arrangements for the executive team. Following the 2016 LTIP review the Board determined it was appropriate to make a number of adjustments to awards granted from 1 July 2016.

Details of the FY17 and FY18 LTIP are outlined below. The Board believe these adjustments, which include equity-based instruments, an extended performance period and new performance measures, will enable the group to retain talented Executives, while aligning executive pay more closely with Group performance and shareholder value.

LTIP Component			
<b>Eligibility</b>	KMP only		
<b>Instrument</b>	Performance rights to acquire ordinary Vita Group shares		
<b>Quantum</b>	The number of performance rights granted to each executive is determined by dividing a fixed dollar amount by the face value of a VTG share. The fixed dollar amount is determined as a percentage of FAR, as follows: <ul style="list-style-type: none"> <li>• CEO: 30% of FAR</li> <li>• Other KMP: 20% of FAR</li> </ul>		
<b>Frequency</b>	Performance rights granted annually		
<b>Performance Period</b>	FY17 LTIP: 1 July 2016 - 30 June 2019 FY18 LTIP: 1 July 2017 - 30 June 2020		
<b>Performance Conditions</b>	The Board have selected two performance measures being: <ul style="list-style-type: none"> <li>• 50% weighting on Earnings Per Share (EPS)</li> <li>• 50% weighting on Relative TSR compared to the S&amp;P ASX 300 Index</li> </ul> These performance measures were selected to ensure executive remuneration is better aligned with the creation of shareholder value.		
<b>Vesting Schedule</b>	Performance is assessed according to a scale of performance. The vesting schedule is designed to ensure no LTI is paid for performance outcomes below threshold, which has been set at a challenging level.		
	To encourage outperformance, stretch LTI is available where exceptional results are achieved.		
		<b>EPS</b>	<b>Relative TSR</b>
	<b>Vesting %</b>	Performance achieved	TSR percentile rank against comparator group
	<b>Nil</b>	< Threshold	<50th percentile
	<b>50%</b>	Threshold	50th percentile
	<b>50-100% on a straight line</b>	Between threshold and target	50th-75th percentile
<b>100-125%</b>	Between target and stretch	75th-100th percentile	
<b>125%</b>	Stretch	100th percentile	
	The LTIP will vest following completion of the performance period, evaluation against performance targets and release of annual results.		
<b>Dividends</b>	No dividends or dividend equivalents are paid or accrued on unvested performance rights.		
<b>Clawbacks</b>	The Board retains discretion to clawback or adjust any LTIP which has vested or remains unvested because of a material misstatement in, or omission from, the financial statements or otherwise as a result of fraud, dishonesty or breach of obligations.		

#### 2017 LTIP Outcomes

With regards to the 2016 cash LTIP, the performance requirements were satisfied in 2016 and disclosed in the 2016 remuneration report. To receive the 2016 LTIP the executives must continue to satisfy the service requirement. In line with the 2016 LTIP service requirement, the LTI will vest over the three-year period from FY17 to FY19.

No performance rights have vested under the 2017 share based payment plan, as the performance period is not yet complete.



# DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

## REMUNERATION REPORT (AUDITED) (CONTINUED)

### Statutory Disclosures

Name	Short-Term Employee Benefits				Post Employment Benefits	Long Term Benefits			Total
	Cash Salary and Fees	Termination Payments	Non-monetary Benefits (a)	Cash Bonus (b)	Superannuation	Cash Bonus (c)	Long Service Leave	Share Based Payments (e)	
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Executive Director</b>									
<b>Maxine Horne</b>									
2017	880,025	-	-	615,371	35,000	143,479	16,353	65,107	1,755,335
2016	775,587	-	35,148	483,427	35,000	127,360	26,193	-	1,482,715
<b>Other Group KMP</b>									
<b>Andrew Leyden (d)</b>									
2017	578,330	-	-	334,305	-	104,667	-	31,440	1,048,742
2016	564,240	-	32,494	302,377	-	99,504	-	-	998,615
<b>Chris Preston</b>									
2017	99,092	11,393	-	146,882	35,887	39,236	-	-	332,490
2016	249,471	-	19,337	104,779	35,887	22,540	-	-	432,014
<b>Kendra Hammond</b>									
2017	333,224	-	-	193,545	29,856	22,000	8,070	18,202	604,897
2016	263,416	-	1,279	-	21,142	-	44,528	-	330,365
<b>Mark Anning</b>									
2017	305,260	-	-	166,722	19,866	54,443	19,175	17,183	582,649
2016	295,149	-	19,337	127,033	20,917	47,754	23,433	-	533,623
<b>Peter Connors</b>									
2017	540,057	-	-	305,284	25,000	92,407	16,722	28,711	1,008,181
2016	504,092	-	19,337	262,428	25,000	79,436	35,069	-	925,362
<b>Total Compensation</b>									
2017	2,735,988	11,393	-	1,762,109	145,609	456,232	60,320	160,643	5,332,294
2016	2,651,955	-	126,932	1,280,044	137,946	376,594	129,223	-	4,702,694

(a) Non-monetary benefits include motor vehicles, private and spouse travel, and corporate hospitality.

(b) This report reflects STI bonuses paid in FY17 relating to FY16 entitlements. The annual bonus in FY16 reflects bonus paid in FY16 relating to FY15 entitlements.

(c) This report reflects bonuses paid in FY17 relating to FY14, FY15 and FY16 entitlements. The LTIP bonus paid in FY16 reflects bonus paid in FY16 relating to FY14 and FY15 entitlements.

(d) The remuneration and other terms of employment for Andrew Leyden (the Chief Financial Officer) are formalised in a service agreement commencing 3 October 2015 and terminates 3 October 2017 and is due for renewal. Mr Leyden is responsible for his own superannuation arrangements. Leave provisions have been made for Mr Leyden on a non-accruing entitlement basis.

(e) Share based payments represent estimated entitlements accrued but not yet vested.

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Key Management Personnel Transactions

The movement during the reporting period in the number of ordinary shares in Vita Group Limited, held directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

Name	Number Held at 1 July 2016	Number Granted as Remuneration	Number Purchased/ (Sold)	Number of Dividends Reinvested	Number Held at 30 June 2017
Maxine Horne	39,270,403	-	(10,751,913)	-	28,518,490
Andrew Leyden	115,962	-	42,836	5,425	164,223
Kendra Hammond	-	-	-	-	-
Mark Anning	-	-	-	-	-
Peter Connors	209,919	-	(100,000)	-	109,919

The movement during the reporting period in the number of performance rights, held directly, indirectly or beneficially, by each KMP including their related parties, is as per the table below. These rights were granted on 1 July 2016 at a nil exercise price.

Name	Number of Performance rights held at 30 June 2016	Number of Performance rights granted	Number of Performance rights exercised	Number of Performance rights forfeited	Number of Performance rights held at 30 June 2017
Maxine Horne	-	72,327	-	-	72,327
Andrew Leyden	-	34,926	-	-	34,926
Kendra Hammond	-	20,221	-	-	20,221
Mark Anning	-	19,088	-	-	19,088
Peter Connors	-	31,895	-	-	31,895
<b>Total</b>	<b>-</b>	<b>178,457</b>	<b>-</b>	<b>-</b>	<b>178,457</b>

#### Executive Contractual Terms

Name	Agreement Commence	Agreement Expiry	Notice of termination by company	Employee Notice	Other
Maxine Horne	1 November 2015	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months	The Group may terminate the Contract any time without notice if serious misconduct has occurred.
Andrew Leyden*	3 October 2015	Agreement terminates 3 October 2017, and is due for renewal	16 weeks	16 weeks	The Group may terminate the Contract any time without notice if serious misconduct has occurred.
Other KMP	Standard Contract updated June 2009	No expiry, continuous agreement	13 weeks' (or 14 weeks') 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.	13 weeks	The Group may terminate the Contract any time without notice if serious misconduct has occurred.

\* Andrew Leyden is engaged via AJL Consulting Pty Ltd, a company of which he is a Director, to provide his services as CFO of Vita Group.

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Non-Executive Director Remuneration

The Board sets Non-Executive Director remuneration at a level that enables the Group to attract and retain directors of the highest calibre, while incurring a cost that has regard for the size and complexity of the Group and is acceptable to shareholders. The remuneration of the Non-Executive Directors is determined by the Board on recommendation from the Remuneration and Nomination Committee within a maximum fee pool.

Non-Executive Directors receive a base fee and statutory superannuation contributions. Non-Executive Directors do not receive any performance based pay.

The maximum amount of fees that can be paid to Non-Executive Directors is capped by a pool approved by shareholders. At the 2015 Annual General Meeting, shareholders approved the current fee pool of \$710,000 per annum.

In determining the appropriate level of fees, the Board has regard for market practice and survey data. There has been no change to the Board fees from the prior year.

Director's fees, as outlined in the table below as at 30 June 2017, are inclusive of superannuation contributions.

	Chair Fee \$	Member Fee \$
Board	210,000	105,000
Audit & Risk Committee	Nil	Nil
Remuneration & Nomination Committee	Nil	Nil

#### Non-Executive Director - Statutory Remuneration Disclosures

Name	Short-Term Employee Benefits			Post Employment Benefits	Long Term Benefits		Total
	Cash Salary and Fees	Non- monetary Benefits	Cash Bonus	Superannuation	Cash Bonus	Long Service Leave	
	\$	\$	\$	\$	\$	\$	
<b>Dick Simpson</b>							
2017	191,781	-	-	18,219	-	-	210,000
2016	191,058	-	-	14,825	-	-	205,883
<b>Neil Osborne</b>							
2017	95,890	-	-	9,110	-	-	105,000
2016	94,011	-	-	8,931	-	-	102,942
<b>Paul Wilson (a)</b>							
2017	105,000	-	-	-	-	-	105,000
2016	102,942	-	-	-	-	-	102,942
<b>Robyn Watts</b>							
2017	95,890	-	-	9,110	-	-	105,000
2016	94,011	-	-	8,931	-	-	102,942
<b>Total Compensation</b>							
2017	488,561	-	-	36,439	-	-	525,000
2016	482,022	-	-	32,687	-	-	514,709

- (a) Paul Wilson's services as a Director is provided by Peandel Pty Ltd, which invoices Vita Group for his Director fees. As such, Mr Wilson is responsible for his own superannuation arrangements.

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Non-Executive Director Remuneration (continued)

#### Interests in the shares and options of the Company

As at the reporting date, the relevant interests of the Directors in the shares and performance rights of Vita Group Limited were as set out in the tables below.

Name	Number of Ordinary shares held at 30 June 2016	Number of Ordinary shares Granted as Remuneration	Number of Ordinary shares purchased/(sold)	Number of Dividends Reinvested	Number of Ordinary shares held at 30 June 2017
Dick Simpson	90,948	-	20,000	4,091	115,039
Maxine Horne	39,270,403	-	(10,751,913)	-	28,518,490
Neil Osborne	271,342	-	(4,303)	-	267,039
Robyn Watts	23,258	-	17,800	401	41,459
Paul Wilson	45,000	-	100,282	2,024	147,306

Name	Number of Performance rights held at 30 June 2016	Number of Performance rights granted	Number of Performance rights exercised	Number of Performance rights forfeited	Number of Performance rights held at 30 June 2017
Dick Simpson	-	-	-	-	-
Maxine Horne	-	72,327	-	-	72,327
Neil Osborne	-	-	-	-	-
Robyn Watts	-	-	-	-	-
Paul Wilson	-	-	-	-	-

(End of Audited Remuneration Report)

### ENVIRONMENTAL REGULATION

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

### INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

#### Indemnification

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

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

## DIRECTORS' REPORT

30 JUNE 2017 (CONTINUED)

### INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS (CONTINUED)

#### Insurance Premiums

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

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

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

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

### AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

#### Independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

#### Non-Audit Services

The following non-audit services were provided by the company's auditor, Grant Thornton Audit Pty Ltd and its related entities. 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 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Grant Thornton Audit Pty Ltd and its related entities received or are due to receive the following amounts for the provision of non-audit services:

	FY17 \$	FY16 \$
Grant Thornton Audit Pty Ltd and its related entities:		
Tax compliance and consulting services	28,800	71,698
	<b>28,800</b>	<b>71,698</b>

Signed in accordance with a resolution of Directors.



Dick Simpson  
Chairman



Maxine Horne  
Director and Chief Executive Officer

Brisbane  
18 August 2017

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## **AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF VITA GROUP LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Vita Group Limited for the year ended 30 June 2017, 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.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



CDJ Smith  
Partner - Audit & Assurance

Brisbane, 18 August 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	FY17 \$'000	FY16 \$'000
<b>Continuing operations</b>			
Sale of goods		479,385	465,378
Fee and commission revenue		195,256	179,734
<b>Revenue</b>	<b>3</b>	<b>674,641</b>	<b>645,112</b>
Cost of sales		(431,731)	(414,460)
<b>Gross profit</b>		<b>242,910</b>	<b>230,652</b>
Other income	3	12,071	10,926
Employee benefits expense	4	(134,312)	(122,537)
Sales and marketing		(11,061)	(9,389)
Rental expense relating to operating leases	4	(21,506)	(20,350)
Other expenses		(23,129)	(23,248)
		<b>64,973</b>	<b>66,054</b>
Depreciation and amortisation expense	4	(9,526)	(11,244)
		<b>55,447</b>	<b>54,810</b>
Finance income		373	439
Finance expenses		(1,168)	(1,401)
<b>Net finance costs</b>	<b>4</b>	<b>(795)</b>	<b>(962)</b>
<b>Profit before income tax from continuing operations</b>		<b>54,652</b>	<b>53,848</b>
Income tax expense	26	(15,702)	(15,821)
<b>Profit from continuing operations</b>		<b>38,950</b>	<b>38,027</b>
Profit/(loss) from discontinued operation (net of tax)	2	441	(2,656)
<b>Profit for the year</b>		<b>39,391</b>	<b>35,371</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year, attributable to the ordinary equity holders of Vita Group Limited</b>		<b>39,391</b>	<b>35,371</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company</b>			
	<b>23</b>		
- basic (cents per share)		25.62	25.12
- diluted (cents per share)		25.59	25.12
<b>Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the company</b>			
	<b>23</b>		
- basic (cents per share)		0.29	(1.75)
- diluted (cents per share)		0.29	(1.75)
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>			
	<b>23</b>		
- basic (cents per share)		25.91	23.37
- diluted (cents per share)		25.88	23.37

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

## CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2017

	Notes	FY17 \$'000	FY16 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	29,675	19,419
Trade and other receivables	5	29,067	33,790
Inventories	6	16,442	14,610
Other current assets		423	-
Term deposits	14	-	5,025
<b>Total current assets</b>		<b>75,607</b>	<b>72,844</b>
<b>Non-current assets</b>			
Intangible assets and goodwill	8	80,586	70,189
Plant and equipment	7	15,073	13,907
Deferred tax assets	12	6,352	9,703
<b>Total non-current assets</b>		<b>102,011</b>	<b>93,799</b>
<b>TOTAL ASSETS</b>		<b>177,618</b>	<b>166,643</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	67,031	67,247
Interest bearing loans and borrowings	15	8,025	11,536
Current tax liabilities		5,641	7,385
Provisions	11	3,546	3,879
<b>Total current liabilities</b>		<b>84,243</b>	<b>90,047</b>
<b>Non-current liabilities</b>			
Trade and other payables	10	1,357	1,149
Interest bearing loans and borrowings	15	3,907	4,249
Provisions	11	3,307	3,212
<b>Total non-current liabilities</b>		<b>8,571</b>	<b>8,610</b>
<b>TOTAL LIABILITIES</b>		<b>92,814</b>	<b>98,657</b>
<b>NET ASSETS</b>		<b>84,804</b>	<b>67,986</b>
<b>EQUITY</b>			
Contributed equity	24	29,421	25,724
Other reserves	24	161	-
Retained earnings	24	55,222	42,262
<b>TOTAL EQUITY</b>		<b>84,804</b>	<b>67,986</b>

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



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Attributable to owners of the parent			
		Contributed equity \$'000	Other reserves \$'000	Retained earnings \$'000	Total equity \$'000
<b>As at 1 July 2015</b>		<b>24,526</b>	<b>-</b>	<b>24,466</b>	<b>48,992</b>
Profit for the year		-	-	35,371	35,371
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>35,371</b>	<b>35,371</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividend reinvestment plan net of costs		1,198	-	-	1,198
Dividends provided for or paid	16	-	-	(17,575)	(17,575)
Employee share schemes - value of employee services	24	-	-	-	-
		<b>1,198</b>	<b>-</b>	<b>(17,575)</b>	<b>(16,377)</b>
<b>As at 30 June 2016</b>		<b>25,724</b>	<b>-</b>	<b>42,262</b>	<b>67,986</b>
<b>As at 1 July 2016</b>		<b>25,724</b>	<b>-</b>	<b>42,262</b>	<b>67,986</b>
Profit for the year		-	-	39,391	39,391
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>39,391</b>	<b>39,391</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividend reinvestment plan net of costs		3,697	-	-	3,697
Dividends provided for or paid	16	-	-	(26,431)	(26,431)
Employee share schemes - value of employee services	24	-	161	-	161
		<b>3,697</b>	<b>161</b>	<b>(26,431)</b>	<b>(22,573)</b>
<b>As at 30 June 2017</b>		<b>29,421</b>	<b>161</b>	<b>55,222</b>	<b>84,804</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	FY17 \$'000	FY16 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		751,768	701,160
Payments to suppliers and employees (inclusive of GST)		(683,792)	(638,493)
Interest received		373	440
Finance expenses		(1,079)	(1,371)
Income tax paid		(14,539)	(11,352)
Net cash flows from discontinued operations		(210)	(1,287)
<b>Net cash inflow from operating activities</b>	<b>13</b>	<b>52,521</b>	<b>49,097</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(7,373)	(8,861)
Payments of acquisition of intangibles		(1,629)	(3,272)
Payments for acquisitions, net of cash acquired	9	(11,700)	(14,990)
Proceeds from sale of store		-	770
Proceeds from sale of plant and equipment		-	4
Proceeds from funds invested		5,025	(4,975)
Net cash flows from discontinued operations		-	16
<b>Net cash (outflow) from investing activities</b>		<b>(15,677)</b>	<b>(31,308)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities	24	3,697	1,198
Proceeds from borrowings		11,833	14,978
Repayment of borrowings		(15,687)	(12,587)
Dividends paid	16	(26,431)	(17,575)
<b>Net cash (outflow) from financing activities</b>		<b>(26,588)</b>	<b>(13,986)</b>
<b>Net increase in cash and cash equivalents</b>		<b>10,256</b>	<b>3,803</b>
Cash and cash equivalents at the beginning of the year		19,419	15,616
<b>Cash and cash equivalents at end of year</b>	<b>13</b>	<b>29,675</b>	<b>19,419</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## FINANCIAL OVERVIEW

### 1 SEGMENT REPORTING

While the Group has a number of operating segments, after the closure of Next Byte, its remaining operating segments have characteristics that are either so similar in nature that they can reasonably be expected to have the same prospects, or where different, are not material.

The Group's operating segments have therefore been aggregated into one reportable segment under AASB 8.

The Group's revenues from external customers are all domiciled in Australia. Revenues of \$199,772,620 (FY16: \$183,768,546) are derived from a single customer.

### 2 DISCONTINUED OPERATIONS

On 10 December 2015, the Group announced to the market that the Next Byte retail stores would be closed, allowing a greater focus on the Group's key strategic areas.

Financial information relating to the discontinued operation for the year ended 30 June 2017 and corresponding prior period are set out below. These amounts have been eliminated from the profit of the Group's continued operations and are shown as a single line of the face of the consolidated statement of comprehensive income.

	FY17 \$'000	FY16 \$'000
Revenue	18	25,148
Expenses	612	(28,941)
<b>Profit/(loss) before income tax</b>	<b>630</b>	<b>(3,793)</b>
Income tax benefit/(expense)	(189)	1,137
<b>Profit/(loss) from discontinued operations</b>	<b>441</b>	<b>(2,656)</b>

Net cash flows from the discontinued operation are disclosed in the consolidated statement of cash flows. The remaining net liabilities as at 30 June 2017 are \$nil. A discontinued operation is a component of the entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

### 3 REVENUE

	FY17 \$'000	FY16 \$'000
<b>Revenue</b>		
Sale of goods	473,635	462,762
Contract revenue	5,750	2,616
Fee and commission revenue	195,256	179,734
	<b>674,641</b>	<b>645,112</b>
<b>Other income</b>		
Cooperative advertising revenue	9,884	8,852
Other miscellaneous income	2,187	2,074
	<b>12,071</b>	<b>10,926</b>

#### *Recognition and measurement*

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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### 3 REVENUE (CONTINUED)

#### Recognition and measurement (continued)

The Group chose to early adopt and apply AASB 15 Revenue from Contracts with Customers with effect from 1 July 2015. The early adoption of this standard has had no impact on the current year or prior year revenue recognition.

Revenue is recognised for the major business activities as follows:

#### *Sale of goods*

Revenue is recognised to depict the transfer of promised goods or services to customers with an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services.

This is effected by the following framework:

- identifying customer contracts
- identifying contractual performance obligations
- determining the transaction price
- allocation of the transaction price to the contractual performance obligations
- recognising revenue as the Group satisfies a performance obligation.

#### *Sale of warranty products*

Consideration received is recognised evenly over the life of the product.

#### *Fee and commission revenue*

Fee and commission revenue 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.

#### *Contract revenue*

Revenue from contracts relates to managed services and professional services. The revenue from managed services is recognised in the accounting period in which the services are rendered. As at 30 June 2017 any contracts exceeding 12 months for managed services are recognised on a monthly basis as the services are rendered. For professional services revenue is recognised upon completion of the service.

#### *Cooperative revenue*

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

#### *Dividends*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**4 EXPENSES**

<i>Continuing operations</i>	FY17 \$'000	FY16 \$'000
<b>Net finance expenses</b>		
Finance charges under hire purchase contracts and chattel mortgages	57	2
Provisions: unwinding of discount	90	73
Line facility fee	752	795
Interest on term debt	269	524
Other interest expense	-	7
<b>Total finance expenses</b>	<b>1,168</b>	<b>1,401</b>
Interest revenue on bank deposits	(373)	(439)
<b>Net finance expenses</b>	<b>795</b>	<b>962</b>
<b>Depreciation and amortisation</b>		
Plant and equipment	7,944	10,441
Software	1,582	803
<b>Total depreciation and amortisation</b>	<b>9,526</b>	<b>11,244</b>
<b>Employee benefits expenses</b>		
Wages and salaries	116,684	106,744
Defined contribution superannuation expense	10,481	8,848
Employee entitlements	7,147	6,945
<b>Total employee benefits expenses</b>	<b>134,312</b>	<b>122,537</b>
<b>Rental expense relating to operating leases</b>		
Rental expense relating to operating leases	21,506	20,350
<b>Total rental expense relating to operating leases</b>	<b>21,506</b>	<b>20,350</b>

**Recognition and measurement**

*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.

*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.

*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.

*Interest income*

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.

*Depreciation*

The depreciation methods used by the Group are disclosed in Note 7.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### KEY NUMBERS

#### 5 TRADE AND OTHER RECEIVABLES

	FY17 \$'000	FY16 \$'000
Trade receivables	24,129	30,485
Allowance for doubtful debts	(1,235)	(320)
	<b>22,894</b>	<b>30,165</b>
Other receivables	3,410	1,171
Prepayments	2,763	2,454
	<b>29,067</b>	<b>33,790</b>

#### Allowance for doubtful debts

As at 30 June 2017, provisions were made against current trade receivables to the value of \$1,235,070 (FY16: \$319,672). 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.

In FY17 the classification of allowance for doubtful debts was amended to exclude all amounts that relate to revenue adjustments made on the Telstra specific receivable. These amounts represent an estimate of adjustments to revenue rather than uncollectable receivables.

The aging of these receivables is as follows:

0 to 91 days	-	-
91+ days	1,235	320
<b>Balance at 30 June</b>	<b>1,235</b>	<b>320</b>
Movements in provision for doubtful debts were as follows:		
At 1 July	320	639
Charge/(release) for the year	1,033	(191)
Amounts written off	(118)	(128)
<b>Balance at 30 June</b>	<b>1,235</b>	<b>320</b>

As of 30 June 2017, trade receivables of \$1,277,194 (FY16: \$457,000) were past due by more than 61 days but not impaired. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full. There is not considered to be any additional credit risk relating to the Telstra specific debtors. Provision for the Telstra specific debtors relate to revenue corrections rather than an inability to collect outstanding monies and are therefore excluded from ageing.

61-90 days	384	88
91+ days	893	369
<b>Balance at 30 June</b>	<b>1,277</b>	<b>457</b>

#### Recognition and measurement

Trade receivables are non-interest bearing. They include an assessment of amounts owing by Telstra as well as regular debtors. 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. Telstra claims can take up to 12 months to finalise.

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 consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**5 TRADE AND OTHER RECEIVABLES (CONTINUED)**

**Recognition and measurement (continued)**

*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.

**6 INVENTORIES**

	FY17 \$'000	FY16 \$'000
Finished goods	18,021	16,222
Provision for diminution in value	(1,579)	(1,612)
<b>Total inventories at the lower of cost or net realisable value</b>	<b>16,442</b>	<b>14,610</b>

Inventories relating to continuing operations recognised as expense during the year ended 30 June 2017 amounted to \$416,725,637 (FY16: \$405,058,729). This expense has been included in the cost of sales line item as a cost of inventories.

Inventory write-downs relating to continuing operations recognised as an expense totalled \$463,795 (FY16: \$794,000).

**Recognition and measurement**

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

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

*Replacement Handset Stock*

Entire Service Package (ESP) inventory is amortised evenly over the life of the ESP product (30 months). Amortisation is recognised in cost of sales in the statement of comprehensive income.

**7 PLANT AND EQUIPMENT**

	Plant and equipment \$'000	Total \$'000
<b>At 1 July 2015</b>		
Cost	61,339	61,339
Accumulated depreciation	(44,062)	(44,062)
<b>Net book amount</b>	<b>17,277</b>	<b>17,277</b>
Opening net book amount	17,277	17,277
Additions	8,088	8,088
Acquired on acquisition	575	575
Disposals	(226)	(226)
Depreciation charge	(11,807)	(11,807)
<b>Closing net book amount</b>	<b>13,907</b>	<b>13,907</b>
<b>At 1 July 2016</b>		
Cost	59,994	59,994
Accumulated depreciation	(46,087)	(46,087)
<b>Net book amount</b>	<b>13,907</b>	<b>13,907</b>
Opening net book amount	13,907	13,907
Additions	8,421	8,421
Acquired on acquisition	458	458
Disposals	5	5
Depreciation charge	(7,718)	(7,718)
<b>Closing net book amount</b>	<b>15,073</b>	<b>15,073</b>
<b>At 30 June 2017</b>		
Cost	63,514	63,514
Accumulated depreciation	(48,441)	(48,441)
<b>Net book amount</b>	<b>15,073</b>	<b>15,073</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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### 7 PLANT AND EQUIPMENT (CONTINUED)

The net book value of assets held under chattel mortgage agreements amount to \$1,471,379 (FY16: nil) and are pledged as security for the related chattel mortgage liabilities.

Additions to the lease make good asset recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* during FY17 were \$1,049,116 (FY16: \$1,020,019). Provisions were raised to represent the future make good liability in Note 11 Provisions.

#### **Recognition and measurement**

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 consolidated statement of comprehensive income during the reporting period in which they are incurred.

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

Plant and equipment	Straight line over 3 to 5 years
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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 at each reporting date, and when events or changes in circumstances indicate that the carrying value may not be recoverable. 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. 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.

The recoverable amount of plant and equipment is the higher 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 (CGU) to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax 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 CGU to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or CGU's are then written down to their recoverable amount. The impairment loss is recognised in profit and loss.

#### **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 and loss.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**8 INTANGIBLE ASSETS AND GOODWILL**

Notes	Software \$'000	Goodwill \$'000	Total \$'000
<b>At 1 July 2015</b>			
Cost	8,095	95,205	103,300
Accumulated amortisation and impairment	(7,196)	(41,213)	(48,409)
<b>Net book amount</b>	<b>899</b>	<b>53,992</b>	<b>54,891</b>
Opening net book amount	899	53,992	54,891
Additions	3,272	-	3,272
Acquired on acquisition	-	13,102	13,102
Disposals	(1)	(265)	(266)
Amortisation charge	(810)	-	(810)
<b>Closing net book amount</b>	<b>3,360</b>	<b>66,829</b>	<b>70,189</b>
<b>Notes</b>			
<b>At 1 July 2016</b>			
Cost	8,469	108,042	116,511
Accumulated amortisation and impairment	(5,109)	(41,213)	(46,322)
<b>Net book amount</b>	<b>3,360</b>	<b>66,829</b>	<b>70,189</b>
Opening net book amount	3,360	66,829	70,189
Additions	1,629	-	1,629
Acquired on acquisition	9	11,242	11,242
Disposals	(5)	(761)	(766)
Amortisation charge	(1,708)	-	(1,708)
<b>Closing net book amount</b>	<b>3,276</b>	<b>77,310</b>	<b>80,586</b>
<b>At 30 June 2017</b>			
Cost	9,763	118,523	128,286
Accumulated amortisation	(6,487)	(41,213)	(47,700)
<b>Net book amount</b>	<b>3,276</b>	<b>77,310</b>	<b>80,586</b>

**Recognition and measurement**

*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 acquirees' identifiable assets, liabilities and contingent liabilities.

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

As at the acquisition date, any goodwill acquired is allocated to each of the CGU's or groups of CGU's that are expected to benefit from the combination's synergies.

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

Impairment is determined by assessing the recoverable amount of the CGU or groups of CGU's to which the goodwill relates.

Where goodwill forms part of a CGU or groups of CGU's and part of the operation within that unit or group of units are 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 CGU retained.

Where the recoverable amount of individual CGU's or groups of CGU's are less than the carrying amount, an impairment loss is recognised. This impairment loss is recorded separately in the profit and loss.

For impairment testing of goodwill refer to Note 18.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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## 8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

### Recognition and measurement (continued)

#### Software

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 consolidated statement of comprehensive income 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 with a finite life are tested for impairment where an indicator of impairment exists and in the case of indefinite life intangibles annually, either individually at the CGU level or groups of CGU's. This requires an estimation of the recoverable amount of the CGU's to which the intangible with finite life is allocated. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

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 profit and loss.

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

<b>Amortisation Method</b>	<b>Software</b>
Method used	Straight line over 2.5 - 3 years
Impairment test / recoverable amount testing	Where an indicator of impairment exists

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**9 BUSINESS COMBINATIONS**

**Acquisition of Business Assets**

Fone Zone Pty Limited (a subsidiary of Vita Group Ltd) acquired the business assets to operate the following Telstra licensed stores:

6 September 2016	Cairns Telstra Licensed Store
12 September 2016	Wollongong Telstra Licensed Store
13 September 2016	Geelong Telstra Licensed Store
6 March 2017	Sunshine Plaza Telstra Licensed Store
15 March 2017	Narellan Telstra Licensed Store
22 March 2017	Mandurah Telstra Licensed Store
4 April 2017	Baldvis Telstra Licensed Store
4 April 2017	Top Ryde Licensed Store

	<b>\$'000</b>
<b>Total purchase consideration (cash)</b>	<b>11,700</b>

The assets and liabilities recognised as a result of the acquisition are as follows:

	Plant and equipment \$'000	Net identifiable assets acquired \$'000	Add: Goodwill \$'000	Total \$'000
<b>Fair value</b>	<b>458</b>	<b>458</b>	<b>11,242</b>	<b>11,700</b>

**Acquisition related costs**

Acquisition-related costs of \$469,633 are included in other expenses in the consolidated statement of comprehensive income representing stamp duty payable on the transfer of business.

**Contingent consideration**

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

**Acquired receivables**

The fair value of trade and other receivables is nil and includes no interest in future trailing income related to pre-acquisition activity by these stores with a fair value of nil. The gross contractual amount for the interest in future income is estimated at nil.

**Revenue and profit contribution\***

The acquired businesses contributed revenues of \$28,081,950 and EBITDA of \$3,739,066 to the Group for the period from acquisition date to 30 June 2017.

On the basis of trading results from the date of acquisition to the end of the reporting period, had the businesses been acquired on 1 July 2016, the contribution to the Group for revenue and EBITDA is estimated at \$55,396,752 and \$6,989,468 respectively.

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

	FY17 \$'000	FY16 \$'000
<b>Cash flow information</b>		
<b>Outflow of cash to acquire business, net of cash acquired</b>		
Cash consideration	11,700	8,180
Acquisition related costs	470	402
	<b>12,170</b>	<b>8,582</b>
<b>Less: balances acquired</b>		
Cash	-	-
Bank overdraft	-	-
	-	-
	<b>12,170</b>	<b>8,582</b>

**Share Acquisitions**

The Group did not acquire an interest in the shares of any company during the financial year. In FY16, Fone Zone Pty Ltd acquired 100% of the voting shares of Kel 2000 Pty Ltd and Kel 2010 Pty Ltd for a purchase consideration of \$6,408,000 net of cash acquired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 10 TRADE AND OTHER PAYABLES

	FY17 \$'000	FY16 \$'000
<b>Current</b>		
Trade payables	28,483	28,252
Other payables and accruals	26,038	28,405
Unearned revenue	6,213	4,716
Annual leave accrual	6,297	5,874
	<b>67,031</b>	<b>67,247</b>
<b>Non-current</b>		
Other payables and accruals	1,357	1,147
Unearned revenue	-	2
	<b>1,357</b>	<b>1,149</b>
<b>Total</b>	<b>68,388</b>	<b>68,396</b>

#### Recognition and measurement

Trade payables 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, non-interest bearing and are paid within terms ranging from 14 to 90 days from recognition.

#### Fair value

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

#### Wages, salaries, annual leave and bonuses

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 in relation to bonuses are recognised in other payables and accruals where contractually obliged or where there is a past practice that has created a constructive obligation.

Liabilities for annual leave are recognised in annual leave accrued 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.

### 11 PROVISIONS

	FY17			FY16		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Employee benefits	908	1,773	2,681	736	1,921	2,657
Make good provision	2,396	1,475	3,871	2,125	1,291	3,416
Onerous lease provision	242	59	301	1,018	-	1,018
	<b>3,546</b>	<b>3,307</b>	<b>6,853</b>	<b>3,879</b>	<b>3,212</b>	<b>7,091</b>

	Make good provision \$'000	Onerous lease liability \$'000	Total \$'000
<b>Movement in provisions:</b>			
Carrying amount at the start of the year	3,416	1,018	4,434
Additional provisions recognised	1,049	301	1,350
Unused amounts reversed	(175)	(633)	(808)
Amounts used during the year	(509)	(389)	(898)
Unwinding of discount	90	4	94
<b>Carrying amount at end of year</b>	<b>3,871</b>	<b>301</b>	<b>4,172</b>

## **11 PROVISIONS (CONTINUED)**

### ***Recognition and measurement***

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, except for employee entitlements, the increase in the provision due to the passage of time is recognised as a finance cost.

### ***Employee benefits***

The current employee benefits provision represents the unconditional entitlements to long service leave where the employee has completed their required service period. The non-current provision for employee benefits represents conditional long service leave entitlements and employee entitlements expected to be settled outside 12 months. Liabilities for long service leave are 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 high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

In FY17 the Group introduced the current LTIP, including the issue of performance rights to key management personnel. The value of performance rights granted under the performance rights plan are recognised as an employee benefit with a corresponding increase in equity of \$161k (FY16: nil). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

For performance rights, the fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The value of the performance rights granted excludes the impact of any non-market vesting conditions (for example EPS growth targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

### ***Make good provision***

The Group is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. The Group estimates its liability to provide for the restoration by reference to historical data and by specific estimates on a premise-by-premise basis. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the asset and are amortised over the shorter of the term of the lease or the useful life of the assets. Assumptions used to calculate the provision were based on current assessments of the timing of the restoration liability crystallising and on current restoration costs.

### ***Onerous lease provision***

The Group has made an estimate of residual lease commitments for underperforming sites where a decision has been made to close the site or where the site has been exited prior to the end of the lease. A provision has been recognised for the present value of the estimated commitment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 12 DEFERRED TAX ASSET

	FY17 \$'000	FY16 \$'000
<b>Deferred income tax in the consolidated balance sheet relates to the following:</b>		
Provisions	1,432	3,526
Inventory	526	526
Provision for employee benefits	2,637	2,390
Onerous lease provision	1,252	1,330
Unearned revenue	127	1,415
Share issue costs	119	119
Plant and equipment	259	397
<b>Net deferred tax assets</b>	<b>6,352</b>	<b>9,703</b>

	FY17 \$'000	FY16 \$'000
<b>Movement in deferred tax assets</b>		
Opening balance	9,703	9,700
<b>Debited/(credited):</b>		
- to profit or loss	(3,351)	26
Acquisition of Kel 2000 Pty Ltd & Kel 2010 Pty Ltd	-	(23)
<b>At 30 June 2017</b>	<b>6,352</b>	<b>9,703</b>

#### *Recognition and measurement*

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 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. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**CASH MANAGEMENT**

**13 CASH AND CASH EQUIVALENTS**

	FY17 \$'000	FY16 \$'000
<b>Cash at bank and on hand</b>	<b>29,675</b>	<b>19,419</b>
<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
Profit for the year	39,391	35,371
<i>Adjustments for</i>		
Depreciation and amortisation	7,844	11,807
Amortisation	1,582	810
Share-based payments expense	161	-
Write down of goodwill on store divestment	761	-
Net profit/(loss) on disposal of plant and equipment	1	105
Make good provision: unwinding of discount	90	11
Onerous lease provision: unwinding of discount	4	128
Doubtful debt provision	(1,410)	957
Inventory obsolescence provision	(33)	(46)
Make good provision	(509)	(574)
Onerous lease provision	(390)	(3,671)
<i>Change in operating assets and liabilities:</i>		
Decrease /(Increase) in trade and other receivables	6,433	(6,702)
(Increase)/Decrease in inventory	(1,799)	1,326
(Increase) in other current assets	(423)	-
(Increase) /Decrease in prepayments	(309)	1,398
Decrease/ (Increase) in deferred tax assets	3,351	(26)
(Decrease)/ Increase in current tax liability	(1,744)	4,936
(Decrease) /Increase in trade, other payables and accruals	(1,847)	1,354
Increase/ (Decrease) in unearned revenue	1,495	(2,371)
(Decrease) /Increase in provisions	(128)	4,284
<b>Net cash inflow from operating activities</b>	<b>52,521</b>	<b>49,097</b>

**Recognition and measurement**

Cash and cash equivalents in the balance sheet comprise cash at bank, cash on 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 consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts that are repayable on demand and form an integral part of the cash management of the Group. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the consolidated balance sheet.

**14 TERM DEPOSITS**

	FY17 \$'000	FY16 \$'000
<b>Term deposits</b>		
Current	-	5,025
<b>Total</b>	<b>-</b>	<b>5,025</b>

Interest rates on term deposits are nil (FY16: 2.40% to 2.81%)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 15 INTEREST BEARING LOANS AND BORROWINGS

	FY17 \$'000	FY16 \$'000
<b>Current</b>		
Obligations under chattel mortgage	1,155	-
Term debt	6,870	11,536
	8,025	11,536
<b>Non-current</b>		
Term debt	3,907	4,249
<b>Total</b>	<b>11,932</b>	<b>15,785</b>

Current interest bearing loans and borrowings mature during 2018, non-current interest bearing loans and borrowings mature during 2019 to 2020.

#### *Chattel mortgages*

The chattel mortgage are secured by a charge over the specific assets being financed. The value of assets under chattel mortgage is \$1,471,379 (FY16: nil).

#### *Term debt*

The interest rate and facility fee charged on the term debt at 30 June 2017 was between 2.62% and 3.60% (FY16: 2.85% and 5.30%).

The Group's loan and lease facilities are secured under the Group's Deed of Cross Guarantee, detailed in Note 20.

#### *Fair values*

The fair values have been calculated by discounting the expected future cash flows at prevailing risk adjusted market interest rates at 2.62% (FY16: 3.09%).

	2017		2016	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Obligations under chattel mortgage	1,155	1,126	-	-
Term debt	10,777	10,404	15,785	15,233
	11,932	11,530	15,785	15,233

Fair value of debt has been estimated by reference to interest rates in active markets and are categorised within Level 1 of the fair value hierarchy.

#### *Interest rate and liquidity risk*

Details regarding interest rate and liquidity risk are disclosed in Note 17.

#### *Financial facilities*

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

At balance date, the Group has available approximately \$16.2 million (FY16: \$13.5 million) of unused master asset finance facilities available for its immediate use. The Group also has access to an unused overdraft facility of \$3.0 million (FY16: \$3.0 million).



## **15 INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)**

### ***Recognition and measurement***

#### ***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, 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.

#### ***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 these assets would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

#### ***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 right 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 consolidated statement of comprehensive income 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 16 DIVIDENDS PAID AND PROPOSED

#### *Declared and paid during the year*

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.

	FY17 \$'000	FY16 \$'000
Final dividend for FY16 8.21 cents per share (FY15: 3.86)	12,450	5,834
Special dividend for FY16 nil cents per share (FY15: 2.00)	-	3,023
Interim dividend for FY17 of 9.20 cents per share (FY16: 5.76)	13,981	8,718
	<b>26,431</b>	<b>17,575</b>

#### *Dividends not recognised at the end of the reporting period*

In addition to the above dividends, since year-end the directors have approved the payment of a final dividend 7.40 cents per share (FY16: 8.21), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividends expected to be paid in September 2017 out of retained earnings at 30 June 2017 but not recognised as a liability at year end, is \$11,292,380.

	FY17 \$'000	FY16 \$'000
	11,292	12,450

#### *Franking dividends*

The franked portions of the final dividends approved after 30 June 2017 will be fully franked out of existing franking credits, or franking credits arising from the payment of income tax in the year ending 30 June 2018.

Franking credits available for subsequent financial years based on a tax rate of 30% (FY16: 30%):

	FY17 \$'000	FY16 \$'000
	54,643	51,385

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

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

The impact on the franking account of the dividend approved by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$4,839,591 (FY16: \$5,335,541).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

## RISK

### 17 FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise operating leases, term debt, 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 year, 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 commodity and equity price risks.

#### Market risk

The Group's exposure to market risk is concentrated in changes of market interest rates, primarily on the Group's debt obligations that have floating interest rates.

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate and the Group's policy is to manage its interest cost using a mix of fixed and variable borrowings. The level of debt is disclosed in Note 15.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate:

	FY17 \$'000	FY16 \$'000
<b>Financial Assets</b>		
Cash	29,675	19,419
	<b>29,675</b>	<b>19,419</b>
<b>Financial Liabilities</b>		
Term debt	5,757	12,617
	<b>5,757</b>	<b>12,617</b>
<b>Net Asset/(Exposure)</b>	<b>23,918</b>	<b>6,802</b>

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 2017, 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:

Judgements of reasonably possible movements:	FY17 \$'000	FY16 \$'000
+ 1% (100 basis points)	167	48
- 1% (100 basis points)	(167)	(48)

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

#### 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, 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 securitise its trade and other receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 17 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. In addition, the Group's treasury management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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 2017. 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 2017.

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

	1 year or less \$'000	1 - 5 years \$'000	Over 5 years \$'000	Total contractual flows \$'000	Carrying Amount \$'000
<b>Financial Assets</b>					
As at 30 June 2017					
Trade and other receivables	26,770	-	-	26,770	26,304
Term deposits	-	-	-	-	-
	<b>26,770</b>	<b>-</b>	<b>-</b>	<b>26,770</b>	<b>26,304</b>
As at 30 June 2016					
Trade and other receivables	35,444	-	-	35,444	31,336
Term deposits	5,078	-	-	5,078	5,025
	<b>40,522</b>	<b>-</b>	<b>-</b>	<b>40,522</b>	<b>36,361</b>
<b>Financial Liabilities</b>					
As at 30 June 2017					
Trade and other payables	28,483	-	-	28,483	54,521
Borrowings	8,273	3,954	-	12,227	11,932
	<b>36,756</b>	<b>3,954</b>	<b>-</b>	<b>40,710</b>	<b>66,453</b>
As at 30 June 2016					
Trade and other payables	28,252	-	-	28,252	56,657
Borrowings	11,974	4,346	-	16,320	15,785
	<b>40,226</b>	<b>4,346</b>	<b>-</b>	<b>44,572</b>	<b>72,442</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**18 IMPAIRMENT TESTING OF GOODWILL**

***Impairment tests for 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 (CGU's), or groups of CGU's, to which the goodwill has been allocated. Although the Group's CGU's have currently been defined as individual stores, being the lowest levels at which cash flows can be independently ascertained for the purposes of discounting future cash flows, goodwill itself can be allocated to individual stores or groups of stores, depending on how the CGU's are expected to benefit from the acquisition. When testing for impairment, expected future cash flows from individual stores or groups of stores are aggregated and compared to the carrying value of goodwill to evaluate whether there is any impairment. The identification of CGU's are reviewed periodically and may be updated to reflect changes in the distribution methods and profitability measures of the Group as required. Goodwill has been allocated to 52 CGU's, with no more than \$3.4m allocated to a single CGU.

	<b>Carrying amount of goodwill \$'000</b>
At 1 July 2015	53,992
Additions	13,102
Disposals	(265)
<b>At 30 June 2016</b>	<b>66,829</b>
At 1 July 2016	66,829
Additions	11,242
Disposals	(761)
<b>At 30 June 2017</b>	<b>77,310</b>

***Key assumptions used for calculations***

The financial projections underpinning the calculations in the value in use model reflect management budgets for the first year and longer range projections for years two to five. Cash flows beyond the five-year period are extrapolated using a 2% growth rate, which does not exceed the long-term average growth rate for the Telecommunications business. In considering impairment and the long term viability of the Group, the Group has developed robust growth and cost assumptions based upon a long term plan. The assumptions are consistent with the previous period and represent management's current projected growth expectations following on from FY17's achievements. In determining such assumptions, factors such as competitive dynamics and the evolving maturity of stores were all contemplated. The inputs used have been classified as level three fair values due to the use of non-observable inputs.

Cash flow projections for the business for the five year period use implied compound annual growth rates as follows:

	<b>FY17</b>	<b>FY16</b>
Revenue	(0.1%)	3.7%
Cost of goods sold	0.3%	5.1%
Operating expenses	1.4%	3.4%
Pre-tax weighted average cost of capital (WACC)	9.2%	10.3%
Terminal growth rate	2.0%	2.0%

***Sensitivity to changes in assumptions***

The inherent nature of future projected results means that, by definition, the resulting accounting estimates will seldom equal the related actual results. The recoverable amount is particularly sensitive to key assumptions including revenue growth and the weighted average cost of capital (WACC). As a result, the Group has conducted a sensitivity analysis on the recoverable amount.

<b>Sensitivity</b>	<b>Impact on cash flows \$'000</b>	<b>Impairment charge</b>
2% reduction in projected revenues in all years	(60,949)	No
5% reduction in projected revenues in all years	(152,371)	No
1% increase in pre-tax WACC	(56,956)	No
3% increase in pre-tax WACC	(137,249)	No

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

## GROUP STRUCTURE

### 19 PARENT ENTITY DISCLOSURES

	FY17 \$'000	FY16 \$'000
<b>Result of parent entity</b>		
Profit/(loss) for the year	38,000	-
<b>Total comprehensive income for the year</b>	<b>38,000</b>	<b>-</b>
<b>Financial position of parent entity at year-end</b>		
Current assets	43,119	28,360
Non-current assets	19,696	19,696
<b>Total assets</b>	<b>62,815</b>	<b>48,056</b>
Current liabilities	6,628	7,295
<b>Total liabilities</b>	<b>6,628</b>	<b>7,295</b>
<b>Total equity of the parent comprising of:</b>		
Share capital	39,232	35,535
Reserves		
Share-based payments	161	-
Retained earnings	16,795	5,226
<b>Total equity</b>	<b>56,188</b>	<b>40,761</b>

During the financial year ended 30 June 2017, Vita Group Limited declared and paid fully franked dividends of \$26,430,696. Since June 30, the directors have approved an intercompany fully franked dividends of \$39,000,000 to be paid to Vita Group Limited from wholly owned subsidiaries.

#### *Parent entity contingencies*

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

	FY17 \$'000	FY16 \$'000
<b>Guarantees held for:</b>		
Leasing commitments	1,874	2,308
Other supplier arrangements	15,000	19,000
	<b>16,874</b>	<b>21,308</b>

There were no other contingencies as at reporting date (FY16: nil).

#### *Parent entity guarantees in respect of the debts of its subsidiaries*

The parent entity has entered into a Deed of Cross Guarantee with the effect that the company guarantees debts in respect of its subsidiaries. Further details of the deed of cross guarantee and the subsidiaries subject to the deed are disclosed in Note 20.

#### *Capital commitments*

The parent entity had not committed to any capital commitments at reporting date (FY16: nil).

#### *Recognition and measurement*

The financial information for the parent entity, Vita Group Limited, has been prepared on the same basis as the consolidated financial statements, except as set out below:

##### *Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Vita Group Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**19 PARENT ENTITY DISCLOSURES (CONTINUED)**

**Recognition and measurement (continued)**

*Financial guarantees*

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

*Taxation*

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.

**20 RELATED PARTY DISCLOSURES**

**Controlled Entities**

Name	Country of incorporation	Percentage of Equity Interest Held	
		FY17 %	FY16 %
Fone Zone Pty Ltd	Australia	100	100
Communique Holdings Pty Ltd	Australia	100	100
Next Byte Holdings Pty Ltd	Australia	100	100
Vita People Pty Ltd	Australia	100	100
The Learning Academy Pty Ltd*	Australia	-	100
SQD Global Pty Ltd	Australia	100	100
<b>Subsidiaries of Fone Zone Pty Ltd:</b>			
Fone Zone Queensland Pty Ltd*	Australia	-	100
Fone Zone New South Wales Pty Ltd*	Australia	-	100
Fone Zone Victoria Pty Ltd*	Australia	-	100
The Mobile Phone Shop Pty Ltd	Australia	100	100
Gould Holdings Pty Ltd*	Australia	-	100
Liquipel Pty Ltd	Australia	100	100
In Touch Communications (Aust) Pty Ltd*	Australia	-	100
Call Direct Telecommunications Pty Ltd*	Australia	-	100
One Zero Communications Pty Ltd	Australia	100	100
One Xerro TLS (Bundaberg) Pty Ltd	Australia	100	100
Geek Squad Pty Ltd	Australia	100	100
Geek Squad Australia Pty Ltd	Australia	100	100
Computer Geek Squad Pty Ltd	Australia	100	100
One Zero TCS (Warwick) Pty Ltd	Australia	100	100
One Zero Suncoast Pty Ltd*	Australia	-	100
Tribal Accessories Pty Ltd	Australia	100	100
Camelon ICT Solutions Pty Ltd	Australia	100	100
Kel 2000 Pty Ltd	Australia	100	100
Kel 2010 Pty Ltd	Australia	100	100
<b>Subsidiaries of Communique Holdings Pty Ltd:</b>			
Sprout Corporation Pty Ltd	Australia	100	100
iConcierge Technology Solutions Pty Ltd*	Australia	-	100
Qibbus (Aust) Pty Ltd*	Australia	-	100
<b>Subsidiaries of Next Byte Holdings Pty Ltd:</b>			
Next Byte Pty Ltd (As trustee for Next Byte Unit Trust)	Australia	100	100
Next Byte International Pty Ltd*	Australia	-	100
Next Byte Unit Trust	Australia	100	100
<b>Subsidiaries of Next Byte International Pty Ltd:</b>			
Square i International Pty Ltd*	Australia	-	100

\* These entities were deregistered on 24 August 2016.

The above entities are providers of communications, electronics, accessories and ICT products and services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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### 20 RELATED PARTY DISCLOSURES (CONTINUED)

#### ***Deed of cross guarantee***

##### *Entities subject to class order relief*

Pursuant to ASIC Corporations (wholly-owned companies) Instrument 2016/785, 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.

#### ***Transactions with Directors and Director related entities***

During the year there were no transactions with Directors or Director related entities.

#### ***Other related party transactions***

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

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

Financial Guarantees held by the parent on behalf of other Group entities are detailed in Note 19.

KMP disclosures for the Group are detailed in Note 28.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**UNRECOGNISED ITEMS**

**21 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 one and five years. There are no restrictions placed upon the lessee by entering into these leases. The leases contain varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Under the terms of certain leases, the Group has the option to acquire the leased assets for their agreed fair value on expiry of the leases.

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

	FY17 \$'000	FY16 \$'000
Within one year	11,062	11,244
Later than one year but not later than five years	24,571	14,704
Later than five years	3,193	330
	<b>38,826</b>	<b>26,278</b>

***Capital commitments***

There are nil capital commitments as at reporting date (FY16: \$6,880,552).

***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.

	FY17 \$'000	FY16 \$'000
Leasing commitments	2,021	2,456
Other supplier arrangements	15,000	19,000
	<b>17,021</b>	<b>21,456</b>

**22 EVENTS OCCURRING AFTER THE REPORTING PERIOD**

In August 2017 the Group concluded negotiations with strategic partner, Telstra (ASX:TLS), and agreed some changes to the terms of its Master Licence Agreement relating to tenure, remuneration and an expansion of its allowable store footprint, all aimed at delivering long-term benefits for both parties. Details of this agreement were announced to the ASX on 11 August 2017.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### OTHER

#### 23 EARNINGS PER SHARE

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

	FY17 \$'000	FY16 \$'000
<b>Profit/(loss) attributable to the ordinary equity holders of the parent</b>	<b>39,391</b>	<b>35,371</b>
	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of ordinary shares for basic earnings per share	152,044	151,373
<i>Adjustments for calculation of diluted earnings per share:</i>		
Weighed average number of performance rights for diluted earnings per share	178	-
<b>Weighted average number of ordinary ordinary shares adjusted for the effect of dilution</b>	<b>152,222</b>	<b>151,373</b>
Basic earnings per share (cents) from continuing operations	25.62	25.12
Basic earnings per share (cents) from discontinued operations	0.29	(1.75)
Basic earnings per share (cents)	25.91	23.37
Diluted earnings per share (cents) from continuing operations	25.59	25.12
Diluted earnings per share (cents) from discontinued operations	0.29	(1.75)
Diluted earnings per share (cents)	25.88	23.37
Underlying earnings per share from continuing operations*	25.62	23.29

\* Excludes amortisation of proprietary products.

#### Recognition and measurement

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 or 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 or ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Performance rights granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share.

#### 24 CONTRIBUTED EQUITY, RETAINED EARNINGS AND RESERVES

<b>Contributed equity</b>	FY17 \$'000	FY16 \$'000
Ordinary shares		
<b>Issued and fully paid</b>	<b>29,421</b>	<b>25,724</b>

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**24 CONTRIBUTED EQUITY, RETAINED EARNINGS AND RESERVES (CONTINUED)**

	Number of shares	\$'000
At 1 July 2015	151,152,436	24,526
<b>Dividend reinvestment plan:</b>		
197,606 new shares issued at \$1.6468 per share	197,606	325
289,377 new shares issued at \$3.0158 per share	289,377	873
<b>At 30 June 2016</b>	<b>151,639,419</b>	<b>25,724</b>
<b>Dividend reinvestment plan:</b>		
329,044 new shares issued at \$4.7579 per share	329,044	1,566
631,272 new shares issued at \$3.3751 per share	631,272	2,131
<b>At 30 June 2017</b>	<b>152,599,735</b>	<b>29,421</b>

**Share-based payments**

The share-based payment reserve is used to recognise the grant date fair value of performance rights issued.

	FY17 \$'000	FY16 \$'000
<b>Movements in share-based payments reserve</b>		
Balance at 1 July	-	-
Performance rights expense	161	-
<b>Balance at 30 June</b>	<b>161</b>	<b>-</b>

**Retained earnings**

	FY17 \$'000	FY16 \$'000
<b>Movements in retained earnings were as follows:</b>		
Balance 1 July	42,262	24,466
Net profit for the period	39,391	35,371
Dividends	(26,431)	(17,575)
<b>Balance 30 June</b>	<b>55,222</b>	<b>42,262</b>

*Capital management*

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

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

During FY17, dividends of \$26,430,696 were paid to shareholders (FY16: \$17,575,296).

Capital is monitored through a net debt / (net debt plus equity) ratio. The current target for the Group's net debt / (net debt plus equity) ratio is below 50%. The ratios based on continuing operations at 30 June 2017 and 2016 were as follows:

	FY17 \$'000	FY16 \$'000
Total borrowings*	11,932	15,785
Less: Cash and cash equivalents and short term investments	(29,675)	(24,444)
<b>Net debt</b>	<b>(17,743)</b>	<b>(8,659)</b>
Total equity	84,804	67,986
<b>Net debt plus equity</b>	<b>67,061</b>	<b>59,327</b>
<b>Net debt / (Net debt plus equity) ratio</b>	<b>(26.5%)</b>	<b>(14.6%)</b>

\* Comprises interest bearing loans and borrowings

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

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 25 SHARE-BASED PAYMENTS

The company has established the Vita Group Executive Performance Rights Plan (Performance Rights) to assist in the retention and motivation of executives of Vita Group.

Under the plan, rights may be offered to participants selected by the Board. Unless otherwise determined by the Board, no payment is required for the grant of rights under the rights plan.

Each right represents an option to subscribe for one share and have a nil exercise price. Upon the exercise of a right by a participant, each share issued will rank equally with other shares of the company.

Performance rights issued under the plan may not be transferred unless approved by the board. The table below summarises rights granted under the plan, no rights are exercisable at 30 June 2017.

Number of performance rights issued:

<i>Grant Date</i>	Opening balance	Granted during the year	Exercised during the year	Forfeited during the year	Closing balance
<b>2017</b>					
1 July	-	178,457	-	-	178,457
	-	<b>178,457</b>	-	-	<b>178,457</b>
<b>2016</b>					
1 July	-	-	-	-	-
	-	-	-	-	-

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	FY17 \$'000	FY16 \$'000
Executive performance rights	161	-
	<b>161</b>	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**26 INCOME TAX**

	FY17 \$'000	FY16 \$'000
The major components of income tax expense are:		
<i>Current income tax:</i>		
Current tax	15,143	15,176
Adjustments for current tax of prior periods	(2,603)	(466)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	3,351	(26)
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>15,891</b>	<b>14,684</b>
Income tax expense is attributable to:		
Profit from continuing operations	15,702	15,821
Profit from discontinued operations	189	(1,137)
	<b>15,891</b>	<b>14,684</b>
A reconciliation between tax expense and the profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
<b>Profit before income tax</b>	<b>55,282</b>	<b>50,060</b>
At the Group's statutory income tax rate of 30% (FY16: 30%)	16,585	15,018
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other items	38	(117)
<b>Accounting expenses not deductible for income tax purposes</b>	<b>38</b>	<b>(117)</b>
	<b>16,623</b>	<b>14,901</b>
Adjustments for current tax of prior periods	(2,603)	(466)
Adjustments for deferred tax of prior periods	1,871	249
<b>Aggregate income tax expense</b>	<b>15,891</b>	<b>14,684</b>

**27 AUDITOR'S REMUNERATION**

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices. The auditor of Vita Group Limited is Grant Thornton Audit Pty Ltd.

	FY17 \$	FY16 \$
Amounts received or due and receivable by Grant Thornton for:		
Audit or review of the financial report of the entity and any other entity in the consolidated Group	150,000	150,000
Other assurance services	6,500	-
Other services in relation to the entity and any other entity in the consolidated Group:		
Tax compliance and consulting services	28,800	71,698
<b>Total auditor remuneration</b>	<b>185,300</b>	<b>221,698</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

### 28 DIRECTOR AND EXECUTIVE DISCLOSURES

#### *Details of Key Management Personnel*

(i) Directors

Dick Simpson	Independent Non-Executive Chairman
Maxine Horne	Chief Executive Officer
Neil Osborne	Independent Non-Executive Director
Robyn Watts	Independent Non-Executive Director
Paul Wilson	Independent Non-Executive Director

(ii) Executives

Andrew Leyden	Chief Financial Officer
Chris Preston	Chief Marketing Officer (resigned 18 November 2016)
Kendra Hammond	Chief People Officer
Mark Anning	Group Company Secretary and Chief Legal Counsel
Pete Connors	Chief Operations Officer

There were no changes in KMP after the reporting date and before the date the financial report was issued.

#### *Compensation of CEO and Executives*

	FY17 \$	FY16 \$
Short-term employee benefits	4,498,097	4,058,931
Post-employment benefits	145,609	137,946
Long-term benefits	677,195	505,817
Termination benefits	11,393	-
	<b>5,332,294</b>	<b>4,702,694</b>

Detailed remuneration disclosures are provided in the Remuneration Report on page 8 to 17.

#### *Compensation options: Granted during the year*

During the financial year no share options were granted as equity compensation benefits (FY16: nil).

#### *Executive performance rights: Granted during the year*

During the financial year 178,457 performance rights were granted (FY16: nil). Refer to note 25 for further information.

#### *Loans to Key Management Personnel*

There were no loans provided to KMP during the financial year (FY16: nil).

#### *Other transactions and balances with Key Management Personnel*

Details of other transactions with KMP are in Note 20 Related party disclosure.

## **29 SUMMARY OF OTHER ACCOUNTING POLICIES**

### ***Corporate Information***

The financial report of the Group for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of directors on 18 August 2017. The Group 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.

The financial statements were authorised for issue by the Directors on 18 August 2017. The Directors have the power to amend and reissue the financial statements.

### ***Summary of Significant Accounting Policies***

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. Where there is reference to individual line items in the financial statements, the accounting policy information as well as information about critical accounting estimates and judgements are now included in the individual notes to financial statements.

### ***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. Vita Group Limited is a for-profit entity for the purpose of preparing the financial statements. Vita Group Limited is the Group's ultimate Parent company.

Comparative information has been restated where applicable to enhance comparability.

### ***Compliance with IFRS***

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) 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 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.

### ***Accounting standards issued but not effective***

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2018). AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

On 13 January 2016 the IASB issued a new standard for leasing, AASB 16 Leases. The new standard changes how lessees account for operating leases. In principle it requires lessees to recognise operating leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The Group is in the process of assessing the impact of the new standard on its leasing contracts and it is likely that the introduction of this new standard will have a material impact due to bringing the existing off balance sheet leases on to the balance sheet when AASB 16 is first adopted. The standard must be adopted for financial years commencing on or after 1 January 2019. The Group has not yet decided when to adopt AASB 16.

### ***Early adoption of standards***

The Group has chosen to early adopt and apply all the requirements of AASB 15 Revenue from Contract with Customers with effect from 1 July 2015. The core principle of the Standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

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### 29 SUMMARY OF OTHER ACCOUNTING POLICIES (CONTINUED)

#### **Basis of preparation (continued)**

##### *Going Concern*

At 30 June 2017, the Group had a net profit of \$39.4 million (FY16: \$35.4 million) and the Group had current liabilities in excess of current assets at 30 June 2017 amounting to \$8.6 million (FY16: \$17.2 million). The net current liability position includes the current portion of unearned revenue of \$6.2 million (FY16: \$4.7 million) which represents deferred revenue rather than a payable to third parties.

The Group focuses on keeping working capital low, has appropriate funding arrangements in place, and monitors its cash flows and interest cover carefully. The Group's forecasts and projections, taking account of possible changes in trading performance, show that the Group will be able to operate within its current financing arrangements. The directors believe the unused facilities of \$16.2 million (FY16: \$13.5 million) (as detailed in Note 15) and forecast net cash inflows from operating activities are sufficient to cover current liabilities of the Group (FY17 actual cash inflows from operating activities: \$52.5 million). The Director's believe the use of the going concern basis of accounting is appropriate and supportable.

#### **Basis of consolidation**

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

##### *Subsidiaries*

Subsidiaries are those entities (including structured groups) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Investments in subsidiaries held by Vita Group Limited are accounted for at cost in the separate financial statements of the parent entity. The acquisition of subsidiaries is accounted for using the purchase method of accounting. This method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see Note 9).

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

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

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

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

##### *Transactions eliminated on consolidation*

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

## 29 SUMMARY OF OTHER ACCOUNTING POLICIES (CONTINUED)

### *Critical accounting estimates and judgements*

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.

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

<i>Note 7</i>	<i>Plant and Equipment</i>	<i>Note 11</i>	<i>Provisions</i>
<i>Note 8</i>	<i>Intangible Assets and Goodwill</i>	<i>Note 18</i>	<i>Impairment Testing of Goodwill</i>
<i>Note 9</i>	<i>Business Combinations</i>		

### *Derecognition of financial instruments*

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

### *Foreign currency translation*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Australian dollars, which is Vita Group Limited's functional and presentation currency.

### *Rounding of amounts*

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, issued by ASIC, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with this Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### *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. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a standalone taxpayer in its own right.

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.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Vita Group Limited for any current tax payable assumed and are compensated by Vita Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Vita Group Limited under the tax consolidation legislation. 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. Assets or liabilities arising under tax funding agreements with the tax-consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

### *Other accounting policies*

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

## DIRECTORS' DECLARATION

30 JUNE 2017

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In the opinion of the directors:

- (a) the financial statements and notes set out on pages 20 to 54 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards (including the Australian Accounting Interpretations), and the *Corporations Regulations 2001*, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 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, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group 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.

Note 29 confirms that the financial statements also comply with International Financial Reporting Standards.

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.



Dick Simpson  
Chairman



Maxine Horne  
Director and Chief Executive Officer

Brisbane  
18 August 2017



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Independent Auditor's Report  
to the Members of Vita Group Limited

Report on the audit of the financial report

**Opinion**

We have audited the financial report of Vita Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
<p><b>Goodwill impairment</b> <b>Note 8 and 18</b></p> <p>As at 30 June 2017, the carrying value of goodwill was \$77,310,000.</p> <p>The Group is required to perform an annual impairment test of goodwill in accordance with AASB 136 <i>Impairment of Assets</i>.</p> <p>This is a key audit matter due to the judgements and estimates required in calculating the recoverable amount on a value-in-use basis.</p> <p>Value-in-use was determined by management by estimating the future cash inflows and outflows to be derived from the continuing use of the assets and / or their ultimate disposal, and applying the appropriate discount rate to those future cash flows.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Considering the application of the requirements of AASB 136 <i>Impairment of Assets</i> to the Group's impairment testing methodology and model;</li> <li>• Making inquiries of management to obtain and document an understanding of their process to assess the risk of impairment;</li> <li>• Evaluating management's process to determine if it appropriately addresses the risks;</li> <li>• Verifying the mathematical accuracy and methodology appropriateness of the underlying model calculations;</li> <li>• Considering each of the internal and external sources of information outlined by AASB 136 which may indicate whether an asset is impaired;</li> <li>• Evaluating the cash flow projections and the process by which they were developed by comparing the cash flows to the latest Board approved budgets and assessing the historical accuracy of the budgeting process;</li> <li>• Assessing the key growth rate assumptions by comparing them to historical results, forecasts and assessing the discount rate by reference to the cost of capital of the Group;</li> <li>• Performing sensitivity analysis on the key assumptions in the model; and</li> <li>• Assessing the adequacy of the Group's related disclosures in the financial statements.</li> </ul>
<p><b>Revenue Recognition</b> <b>Note 3</b></p> <p>The Company's revenue balance of \$674,641,000 is the largest item in the Statement of Comprehensive Income.</p> <p>Additionally, <i>ASA 240 The Auditors Responsibility in relation to Fraud in an Audit of A Financial Report</i> requires us to consider the risk of material misstatement due to fraudulent financial reporting relating to revenue recognition.</p> <p>This area is a key audit matter due to the nature of revenue arrangements, the systems and processes used to transact sales and the importance of the revenue balance to stakeholders.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• Understanding the processes and testing the key controls used by the Group in recording revenue and receivables;</li> <li>• Assessing the revenue recognition policies for appropriateness and compliance with AASB 15 <i>Revenue from Contracts with Customers</i> by selecting a sample of revenue transactions and verifying they were appropriately recognised;</li> <li>• Comparing revenue data to prior periods to identify trends and making inquiries of Management to obtain an understanding of anomalies; and</li> <li>• Assessing the adequacy of the Group's disclosures in respect of AASB 15 and the requirements therein.</li> </ul>

**Information Other than the Financial Report and Auditor's Report Thereon**

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



#### **Responsibilities of the Directors' for the Financial Report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 17 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Vita Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

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.

A handwritten signature in blue ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in blue ink that reads "Cameron Smith".

CDJ Smith  
Partner - Audit & Assurance

Brisbane, 18 August 2017

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 August 2017.

**A. Distribution of equity securities**

(i) Ordinary Share Capital

Fully paid ordinary shares are held by individual Shareholders.

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

(ii) Options

Nil options are held.

Options are not listed on the 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 - 1000	1,470	815,406	0.53%
1,001 - 5,000	2,660	7,739,965	5.07%
5,001 - 10,000	1,244	9,647,344	6.32%
10,001 - 100,000	1,422	37,251,508	24.41%
100,001 and over	77	97,145,512	63.67%
	<b>6,873</b>	<b>152,599,735</b>	<b>100.00%</b>

**Shareholdings of less than a marketable parcel**

Holdings of less than 382 shares	465	84,014	0.06%
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**B. Twenty largest holders of quoted equity securities**

Ordinary Shareholders	Fully paid	
	Number	Percentage
FZIC PTY LTD	19,342,124	12.68%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,340,306	12.67%
JP MORGAN NOMINEES AUSTRALIA LIMITED	12,271,240	8.04%
CITICORP NOMINEES PTY LTD	6,534,586	4.28%
MCMAHON SUPERANNUATION PTY LTD <MCMAHON SUPER FUND A/C>	5,865,540	3.84%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MBA A/C>	3,910,253	2.56%
KAVEL PTY LTD	3,446,869	2.26%
MISS MAXINE JOAN HORNE	3,201,354	2.10%
BRISPOP NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	2,347,997	1.54%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <VFA A/C>	2,135,177	1.40%
ROBERT FERGUSON + JENNIFER FERGUSON + RACHEL FERGUSON <TORRYBURN S/F A/C>	1,224,490	0.80%
SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C>	1,155,310	0.76%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	989,922	0.65%
NATIONAL NOMINEES LIMITED	968,930	0.63%
MIRRABOOKA INVESTMENTS LIMITED	900,000	0.59%
GERNIS HOLDINGS PTY LIMITED	872,381	0.57%
MIRRABOOKA INVESTMENTS LIMITED	800,000	0.52%
BNP PARIBAS NOMS PTY LTD <DRP>	719,340	0.47%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	700,380	0.46%
MR TIMOTHY BRYCE KLEEMANN + MRS TRACY MICHELE KLEEMANN <TIM KLEEMANN SUPER A/C>	600,000	0.39%
	<b>87,326,199</b>	<b>57.21%</b>

## AUSTRALIAN SECURITIES EXCHANGE (ASX) ADDITIONAL INFORMATION

30 JUNE 2017(CONTINUED)

### C. Substantial Shareholders

The number of shares held by substantial Shareholders and their associates as disclosed in substantial shareholding notices given to the company as at August 2017 were:

	Fully paid	
	Number held	Percentage
<b>Ordinary Shareholders</b>		
Maxine Horne	28,518,490	18.69%
Spheria Asset Management Pty Ltd	8,274,959	5.42%
<b>TOTAL</b>	<b>36,793,449</b>	<b>24.11%</b>