



**ANNUAL**

**REPORT**

**FY2016**







vita<sup>®</sup>  
GROUP LIMITED

*Our*  
**PEOPLE &**  
CUSTOMERS  
**ARE EVERYTHING**  
**TO US**



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# Our STORY

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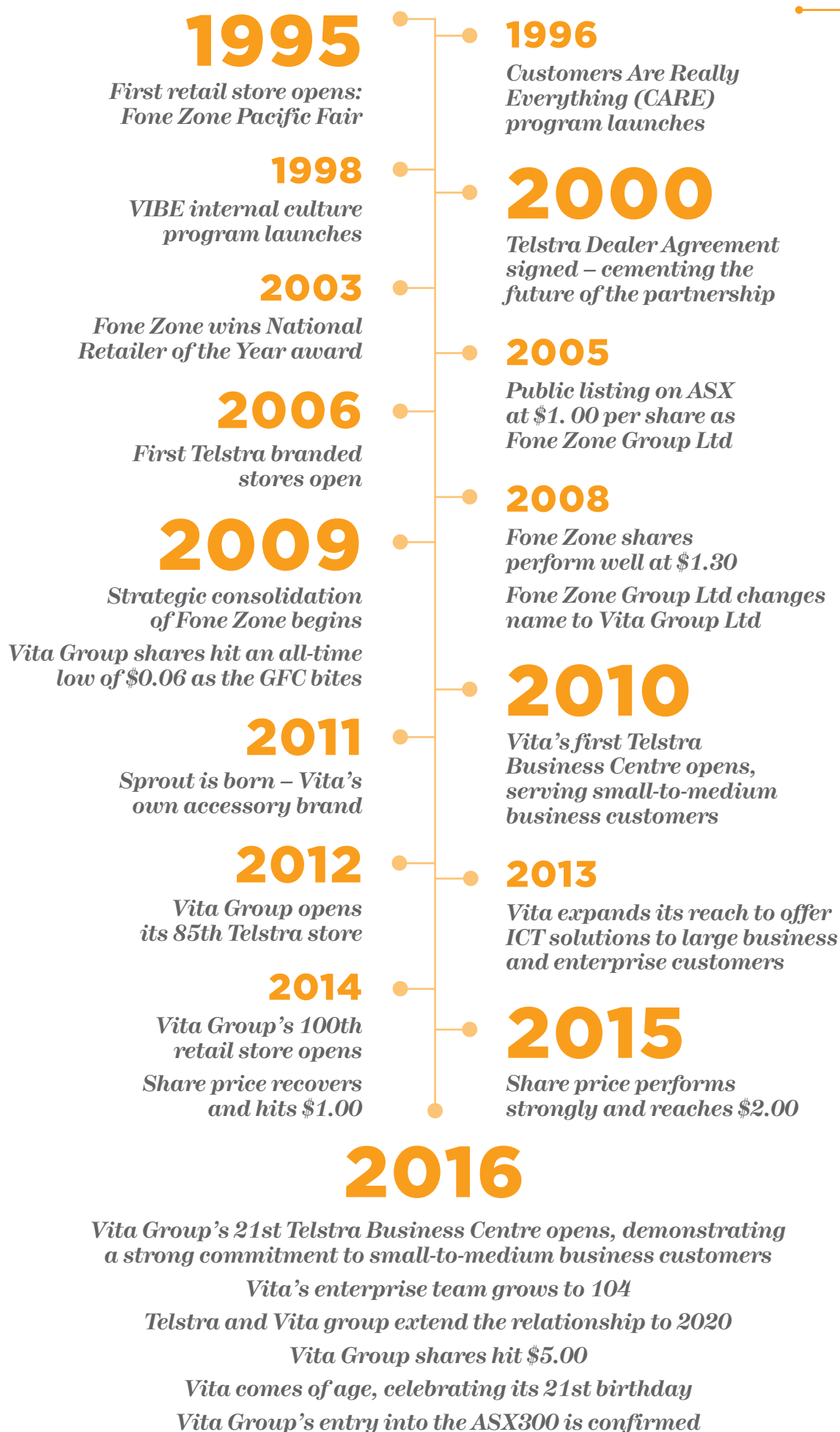
**V**ita Group's story began in 1995, with the opening of a mobile phone retail store on the Gold Coast, under the Fone Zone brand.

That store was founded with the knowledge that customers wanted the best possible products and services, combined with an unbeatable in-store experience.

Twenty-one years later, the business has grown from start-up to an ASX300 publicly listed company, trading as Vita Group Ltd.

Whilst Vita Group has evolved and grown over the years, the initial focus on our people, and subsequently our customers has not waived. This is at the heart of the organisation and represents everything that we stand for. Vita Group truly came of age this year, celebrating our 21st birthday. We have grown into a robust and resilient company with a vibrant personality.



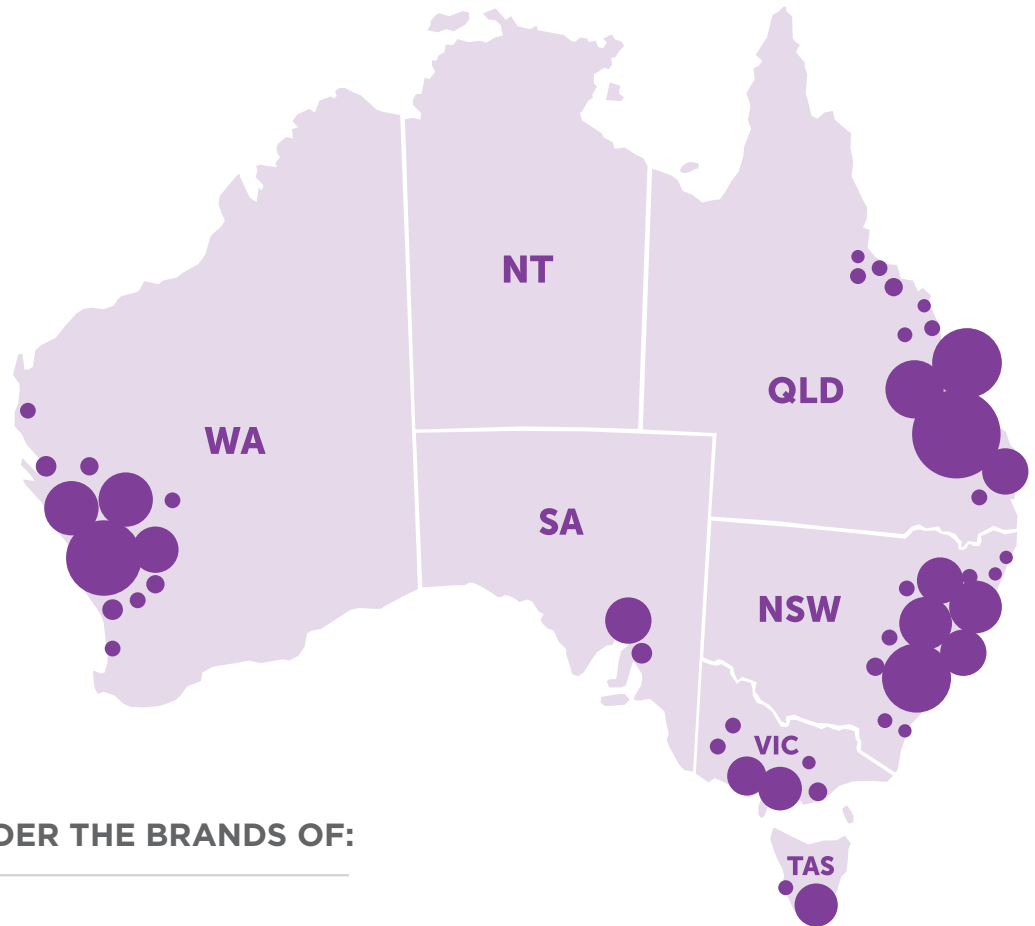


# VITA GROUP HAS EVOLVED

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**V**ita Group  
is now  
1700 team  
members strong,  
with revenues  
of \$645 million  
and 137 points of  
presence (at 30  
June 2016).

We're a  
truly national  
organisation with  
points of presence  
strategically  
placed throughout  
Australia.



## WE OPERATE UNDER THE BRANDS OF:

---



### TELSTRA AND FONE ZONE

Providing exceptional  
telecommunications products  
and services to retail customers



### SPROUT

Our own accessories brand, present  
in all Vita Group stores and many  
other retail networks across Australia



### TELSTRA BUSINESS CENTRES AND ONE ZERO OUTLETS

Enabling the technology and  
communications needs of small-  
to-medium business customers



### VITA ENTERPRISE SOLUTIONS

Our team of specialists, providing  
Information and Communications  
Technology (ICT) solutions to large  
enterprise and government customers







# FY16 HIGHLIGHTS

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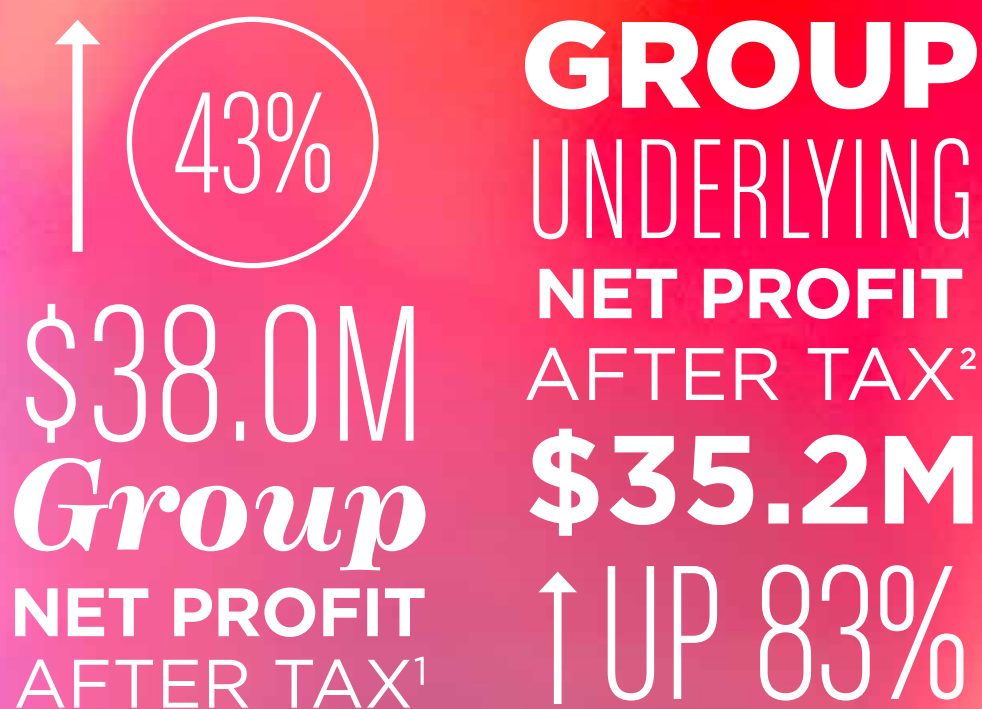
*We're*  
**PROUD TO BE**  
PROFITABLE

↑   
*Group*  
REVENUE  
**\$645.1M**

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*Group* \$66.1M  
EBITDA<sup>1</sup> UP 31%↑

**GROUP UNDERLYING**  
EBITDA<sup>2</sup>↑ **\$62.0M**  
UP 55%



*Ordinary* 13.97¢  
DIVIDENDS ↑ 75% PER SHARE

---

**EARNINGS PER**  
**SHARE**  
**23.37** ↑ 34%  
¢ PER SHARE

<sup>1</sup> From continuing operations

<sup>2</sup> From continuing operations excluding the benefit from the discontinued ESP swap/warranty product





# *Our* HIGHLIGHTS

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## RETAIL

8,980,776

PROSPECTS  
WALKED THROUGH  
OUR RETAIL DOORS1.2 MILLION  
SALES TRANSACTIONS32 STORE  
FOOTPRINT  
CHANGES

## SML-TO-MED BUSINESS



51,000

INTERACTIONS WITH  
**SMB CUSTOMERS**5 NEW TBCS  
OPENED

## ENTERPRISE

55 NEW VES  
TEAM MEMBERS47,246  
VES WEBSITE  
VISITS2 STATE  
OFFICES  
OPENED  
SYDNEY &  
MELBOURNE

## OUR PEOPLE

49,118 COACHING  
SESSIONS HELD153 TEAM MEMBERS  
INTERNALLY  
PROMOTED108  
LEADERSHIP  
PROGRAM  
GRADUATES4,096 SALES & SERVICE  
COMMENDATIONS MADE1,189  
PAID DAYS OFF  
FOR BIRTHDAYS,  
TENURE AND  
VOLUNTEERINGVITA PEEPS  
PERSONALLY  
DONATED  
\$24,869  
TO CHARITIES



# CHAIRMAN'S REVIEW

## DICK SIMPSON CHAIRMAN

**O**n behalf of the board I am pleased to report another very strong year for Vita Group. Our continued growth has been powered by our investment in people and our culture as the key drivers of performance.

From continuing operations, for the 12 months to 30 June, group revenues were up 19% to \$645 million, EBITDA increased 31% to \$66 million and NPAT increased 43% to \$38 million. Underlying EBTIDA was \$62 million (up 55%) and underlying NPAT was \$35 million (up 83%). The board declared a full-year fully-franked dividend of 13.97 cents per share, up 75% on last year. Note: continuing operations results exclude Next Byte, which the group closed in December 2015.

These results demonstrate that our strategy is working. We have invested in creating both the country's largest network of licensed Telstra retail stores and a platform to service small-to-medium business (SMB) and enterprise customers that draws on Telstra's competitive advantages in serving the business community.

The engine room of the FY16 result was Vita's retail channel. In recent years the leadership team has focused on developing team members and optimising the physical footprint to ensure that Vita delivers a consistently positive in-store experience for its customers as well as strong sales performance.



During the year, the retail network recorded growth in overall revenue and EBITDA contribution. An 18% uplift in like-for-like revenue, higher average store contribution and customer advocacy improvements were all testament to the degree to which the Vita experience – our 'secret sauce' – was delivered at scale across the network.

*“The common ingredient to Vita's success, across all channels to market, is our people”*



# We're PROUD TO BE PROFITABLE

In the business channels, we expanded our network to 21 Telstra Business Centres (TBCs) across 13 'geozones' and made significant headway in the enterprise market serviced by Vita Enterprise Solutions. Our offering to both SMB and enterprise customers has evolved, with our executive team working closely with Telstra to shape our business offering to improve service in both segments.

The common ingredient to Vita's success, across all channels to market, is our people. Vita's investment in professional development, leadership, training and culture is core to our strategy. We are a people business and the investment in this area translates directly to financial performance.

I have mentioned the closure of Next Byte operations. This was a necessary step that allowed the group to focus investment and leadership time on more promising opportunities ahead of us in telecommunications. The team is to be credited for the manner in which the closure was handled and the efforts made to support the team members who were affected, a

significant percentage of whom were redeployed within Vita. While the closure did have a small impact on the consolidated results for FY16, the impairment of the Next Byte business had been recognised in prior years.

As we look ahead, Vita Group is in a favourable position. We have a strong balance sheet with access to capital from either the debt or equity markets, should we need to access funds to continue our growth. We are confident that we can continue to optimise our retail operations and grow the SMB and enterprise channels profitably.

The group benefits from a stable board and a proven executive leadership team inspired by CEO Maxine Horne. The layer of leadership reporting to the executive team has been strengthened, providing a solid foundation for growth from within the team. Our 21 year relationship with Telstra is strategic and is growing on many fronts.

On behalf of the board I want to thank Maxine, her leadership team and all of Vita's dedicated team members for another strong year. I would also like to thank our shareholders for their continued support.



**DICK SIMPSON**  
CHAIRMAN

# CEO'S REVIEW

**MAXINE HORNE**  
CHIEF EXECUTIVE  
OFFICER

**I**t has been yet another great year for the Vita Group, driven by our high-performing team. A big shout out for the result goes to all 1,700 'Vita peeps' – for their pride, passion and dedication. We are an awesome team!

## CONTINUED STRENGTH IN RETAIL

Our retail channel delivered a 19% increase in revenue. Importantly the like-for-like picture was telling: on a same-store basis, revenue was up 18% and EBITDA up 25%.

This is an impressive achievement that demonstrates the discipline of our leadership team in continuing to drive an exceptional customer experience. It's quite simple – if we look after our team members, they will look after our customers, who will keep coming back to us and tell their friends and family about us.

Our winning formula in retail is clear and we have three key levers for success. Our first and most important lever is our people, and we will continue to build productivity through our unwavering focus on the Vita team. We will also further optimise the physical portfolio as well as maximise the product pipeline.

*“These are exciting times for Vita Group - the sky really is the limit for this company”*



FY16 also saw continued growth from the Sprout accessories business. Sprout has the widest range of any brand in Australia and contributes a high-margin revenue stream. As well as in our own Vita stores, the brand is represented in more than 300 non-Vita outlets and volumes continue to increase steadily. Sprout enjoyed record revenues in FY16, growing by 25% to \$31.7 million.

## MOMENTUM IN SMALL-TO-MEDIUM BUSINESS

I am pleased to report strong progress in our business channels in FY16. Vita's offering to our business customers is two-pronged: small-to-medium sized businesses (SMBs) are serviced through our contact centres, outbound sales consultants, Telstra Business Centres (TBCs) and One Zero outlets; whilst the telecommunications and ICT needs of larger corporate customers are met through our Vita Enterprise Solutions channel.

Revenue from the SMB channel was up 47% overall and 8% on a like-for-like basis, the latter result reflecting the momentum that our more mature TBCs are gaining in the highly fragmented SMB market. Vita added five geographically based zones (geozones) during the year, taking the overall network to 13 geozones. We also expanded our contact centre significantly to ensure we effectively service the SMB channel in a variety of ways.

## BUILDING FOUNDATIONS IN ENTERPRISE

In the enterprise channel, we have focused on building a strong team – in sales, support and leadership. We have restructured the team to allow intensity of leadership as well as a depth of product and expertise.

We have increased the talent within the team by making several key appointments. Our investments have resulted in the development of a quality sales pipeline in what is a long-lead sales cycle. The team secured a number of significant corporate account wins towards the end of the financial year, which will flow through to the FY17 result in annuity revenue streams.

It's early days for our SMB and enterprise channels and we are in the investment phase. Based on the momentum we have seen already, we expect to see a material financial contribution over the coming years from these channels.

## TELSTRA PARTNERSHIP A KEY ADVANTAGE

We continue to generate mutual benefits from our strategic partnership with Telstra, now in its 21st year. We have an established partnership in retail that delivers consistently and we are collaborating closely with Telstra in the SMB space to optimise the offering. The advantage that Telstra brings to our B2B offering is key and will increase in importance as the NBN rolls out. In enterprise, our go-to-market model sees us working closely with Telstra to deliver value for all parties.

In March, we were extremely pleased to announce the extension of our Telstra Dealer and Master License Agreement to 31 December 2020 - a clear indication of the strength of the partnership and the shared value to both parties.

# Love WHAT DO YOU DO

## STRONG BALANCE SHEET - GROWTH OPTIONS

The upshot of another outstanding year is that Vita is in a very healthy financial position. Our operating platform is generating significant cash flows, gross borrowings have been reduced and our balance sheet is strong. This means we have ample capacity to invest in organic growth opportunities.

We will look to take advantage of our balance sheet flexibility in exploring additional growth opportunities outside of our current core telecommunications-focused divisions. Any steps we make will be measured and considered, consistent with the approach that has served us well in recent years.

These are exciting times for Vita Group - the sky really is the limit for this company. As CEO I am fortunate to be supported by a proven senior leadership group and an emerging tier of talented leaders. But what gives me absolute confidence that we can continue to reach lofty goals is the unfailing passion and dedication of Vita's 1,700 team members.

I sincerely thank the entire team for their collective performance in FY16, and I thank our shareholders, our board, our partners and our customers. I look forward to working together to embrace the opportunities in front of us in FY17.



**MAXINE HORNE**  
CHIEF EXECUTIVE  
OFFICER



# ABOUT VITA GROUP

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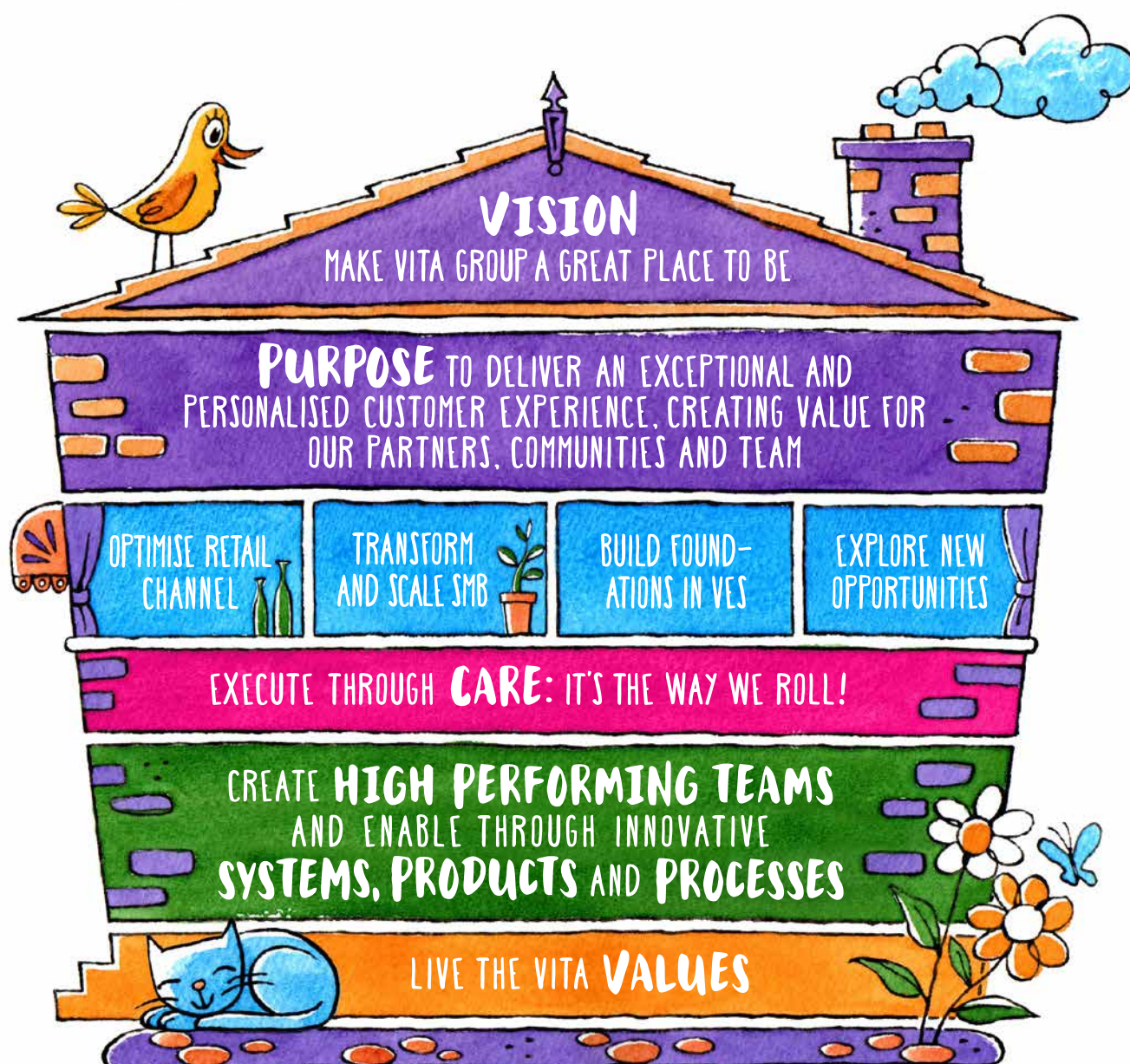


vita®  
GROUP LIMITED

## *Who* **WE ARE**

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The Vita Group logo represents our effervescence – our enthusiasm. It ties in beautifully with the very origins of the word Vita – ‘way of life’, because that’s what we’re all about! The bubbles symbolise our people and send the message that every bubble – or Vita team member – counts.



# What WE DO

Our 'strategy house' describes our strategic plan. It also portrays our personality – as we do things just a little bit differently at Vita Group. We're proud of this, and unapologetic about it, because we know it works for us. We use a house to describe our strategy because it conveys how we operate, which is essentially as a family – a group of people that work together to get things done. We've got each other's backs through good times and bad and we have a common set of values.





# *Every* ACTION WITH THE WHOLE TEAM IN MIND



## OUR TEAM





# OUR RETAIL POWERHOUSE

**T**he retail channel is Vita Group's engine room – it is key to our strategy and is an integral part of our future. In the last financial year, almost nine million consumers walked through the doors of our retail points of presence, making it a significant business.

We serve our retail customers through Telstra and Fone Zone stores across Australia. Our products include mobile technology, a range of fixed line products and internet solutions including NBN, as well as our own Sprout accessories.

#### FY16 HIGHLIGHTS INCLUDE:

- We continued to optimise our store portfolio to ensure we are well positioned for our customers, and able to deliver benefits to our shareholders. Our team executed 32 store changes this year (including openings, closures and re-fits) to ensure we have the most profitable stores in the most effective locations. Our ability to execute this volume of change illustrates our agility and our project management capability
- This year we lifted performance to new levels. Our focus on developing our people and providing the right systems, tools and processes has delivered exceptional like-for-like returns and unprecedented levels of customer advocacy







#### EXAMPLES OF OUR PERFORMANCE IMPROVEMENT ACTIVITIES INCLUDE:

- Our Retail Academy, which includes a variety of training programs designed to lift performance and productivity. We have enhanced our onboarding activities to ensure that we look after our newest Vita peeps and get them 'customer ready' as soon as possible. Our leadership development offerings have been boosted, with options for new leaders, leaders-in-the-making and those seeking promotions to new roles
- Our Insight Coaching program, which is now well embedded into our operating rhythm. Our Business Managers know that performance coaching is their most important activity, and they know that it delivers results
- The XLR8™ Journal, our online tool that team members and leaders use as their daily 'tool of the trade'. This year we accelerated our focus on talent and succession through a unique 'radar system' which reflects team members' performance in their current role and their readiness to take on their next career move
- Using a one-on-one template, a balanced scorecard and assessment tools, our retail team can develop a greater self-awareness of career opportunities and therefore shape their Vita careers
- The simplification of in-store activities, to provide team members with more time to talk with customers and to provide leaders with more time to coach and develop the team. Examples of in-store simplification include the streamlining of 'end of day' processes and the automation of a number of previously manual activities

*“The bottom line is this: we know that if we focus on our people, the results will follow”*

## Our FUTURE

**OVER THE NEXT 12 MONTHS, WE WILL CONTINUE TO EXECUTE OUR STRATEGY TO OPTIMISE OUR RETAIL PORTFOLIO - THROUGH OUR PEOPLE AND OUR STORES**

We have three levers, which combined will drive continued growth. Firstly, we will continue to build productivity through our people – which is about continued investment in leadership, capabilities and efficiencies. We will continue to optimise the physical footprint of stores – creating a national, clustered network. And we will maximise the product pipeline – a key strength in this industry of constant product development and evolution.



# GAINING TRACTION IN SMALL-TO- MEDIUM BUSINESS

**O**ur small-to-medium business (SMB) channel shows significant promise and we continue to grow and make steady gains in this newer part of our customer ecosystem.

We serve a wide range of SMB customers through our Telstra Business Centres spread over 13 geozones, our 80 seat contact centre and our One Zero outlets. Products for these customers include mobile and fixed line solutions, data, unified communications and cloud-based technologies.

#### FY16 HIGHLIGHTS INCLUDE:

- Our revenue growth of 47% in the SMB channel demonstrates the expansion of our SMB program – we are building a national footprint, complementing our retail portfolio and enabling us to operate at a meaningful scale
- We opened five (net) TBCs across Australia during the year to bring our total at year end to 21 TBCs across 13 geozones. We are able to deliver these portfolio changes at scale and pace, following our expertise gained in retail

- Our executive team continue to work closely with Telstra as the attractive, but fragmented, Australian SMB market evolves. For our customers, Vita is an extension of Telstra and we will continue to partner with them to drive the most effective go-to-market model

*“Our revenue growth of 47% in the SMB channel demonstrates the expansion of our SMB program – we are building a national footprint, complementing our retail portfolio and enabling us to operate at a meaningful scale”*



## EXAMPLES OF OUR PROGRESS INCLUDE:

- Our SMB Insight program – a complete framework of tools, programs and methodologies, focused on providing the best customer experience. It's based on what has been so successful in retail, but is specific to the needs of SMB customers
- A clearly defined, implemented and embedded operating rhythm that ensures a focus on planning, coaching, customer service and community engagement
- The improvement of leadership bench-strength via the appointment of external hires as well as the delivery of leadership development programs
- The implementation of retail tools, such as the XLR8™ Journals which we are adapting to meet the needs of our SMB team

# Our FUTURE

**WE KNOW WE HAVE THE RECIPE FOR SUCCESS – WE'RE NOW IMPLEMENTING IT**

In the coming 12 months, our focus is on continuing to replicate our success in retail. We will work closely with Telstra to fine-tune the operating model and we will execute our strategy to transform the SMB channel. We know that there is significant opportunity to further grow revenues and improve productivity.



# BUILDING FOUNDATIONS IN ENTERPRISE

**O**ur enterprise channel has gone from strength to strength this year, delivering on the promises made 12 months ago. It's a key part of our customer ecosystem and its contribution will scale up in the coming years.

We operate in the enterprise market through the Vita Enterprise Solutions (VES) brand. The VES team works closely with Telstra to deliver solutions for device management, customer and employee engagement and enterprise infrastructure solutions.

Through our consulting, professional and managed services teams, VES leverages the power of Telstra's networks, coupled with technology solutions from leading global vendors such as Microsoft, Apple, Samsung and Avaya, to deliver outstanding business outcomes for our customers.

## **FY16 HIGHLIGHTS INCLUDE:**

Our focus in enterprise for the past 12 months has been on setting up for further growth. The team has grown from 40 to more than 100 dedicated resources to create greater depth of capability, capacity and coverage across three key groups of solutions, sales and services.

## **EXAMPLES OF THE EXECUTION OF OUR STRATEGY INCLUDE:**

- Developing a whole of business proposition, executed through a consulting and services-led engagement. This is underpinned by our engagement framework and is designed to deliver maximum value for our customers as they seek to drive key business outcomes

- An evolving structure and significant improvements in the capability within the team, with a focus on leadership as well as sales and deep domain expertise in areas such as mobility, cloud and collaboration
- The opening of new offices in Sydney and Melbourne, which along with our Brisbane office, places VES firmly in the state capitals across the east coast of Australia – where the enterprise customer base predominantly resides
- Our VES Insight program – a complete framework of tools, programs and methodologies, focused on providing the best experience to enterprise customers, whose needs are very different to retail and SMB customers. This program enables our sales executives and ICT specialists to help customers understand what is important for their business – often uncovering insights that enhance their awareness of their own needs

All of this has enabled the team to deliver some significant account wins throughout the year, which will provide an annuity income stream for FY17 and beyond.

*“Our focus in enterprise for the past 12 months has been on setting up for further growth”*





## ENTERPRISE

### VITA ENTERPRISE SOLUTIONS, TELSTRA AND QUEENSLAND POLICE DELIVERING A LANDMARK PROJECT

We are very proud of our partnership with Telstra in delivering a unique mobile managed device solution that enables our police officers to spend more time on their core business of policing and less time on administrative tasks. The mobility managed service provides critical support to front line officers, 24 hours a day, 365 days a year.

The solution includes a custom online ordering portal, asset management and a hot-swap service for lost, stolen or broken devices, ensuring officers have access to a working device at all times.

Inside our purpose-built facility, we provision, stage and configure tablets that provide officers with real-time, in-field access to critical information. Network security and the physical security of the devices are key, and that's why we custom built the facility to ensure that the ongoing safety and security of the information and the physical devices is maintained.



## Our FUTURE

**WE HAVE THE STRUCTURE, THE TALENT  
AND THE SYSTEMS IN PLACE. WE WILL  
NOW LEVERAGE THESE INVESTMENTS TO  
CONTINUE OUR GROWTH TRAJECTORY**

Over the next 12 months, we will continue to build our capabilities to further drive our consulting-led approach to enterprise customers. The team will identify global best-practice vendor solutions and augment the Telstra offering to create a strong value proposition for customers. Our practices will evolve and we will provide holistic solutions to meet business needs, enabling digitally connected enterprises.

We are well positioned for mid-term growth from the enterprise channel.



# OUR BIGGEST DIFFERENTIATOR IS OUR PEOPLE

**A** key contributor to our success is our people - it's in our DNA and always has been. We're aiming to create high-performing teams and enable them through innovative systems, products and processes.

Our teams are supported through structured and embedded 'mechanics and dynamics' and we're creating an environment that allows our leaders to use the Vita tools to coach and develop themselves and their team.

We measure and monitor these practices through our proprietary XLR8™ platform and Learning Academy programs. These systems provide transparency around talent and performance at all levels of our salesforce - and we're expanding them into our SMB channel.

We enable our team members and their leaders to review their performance and focus on performance

*“If it's a great place for our team members, it will be a great place for our customers and shareholders alike”*

gaps at an individual level. With that information we can provide targeted and personalised training for each person, rather than a generic approach.

Our CARE program is a guiding philosophy that we've had in the group for 20 years. It underpins

everything we do, from our daily operating rhythm, to how we service our customers, to the way we engage with our community. Essentially it's the way we roll!

CARE has three streams: planning and coaching, personalised service and community engagement. The planning and coaching component is all about our people.

We have a clear operating rhythm that includes business planning and forecasting, leadership, and coaching. It's another way that we build high-performing teams to deliver on our promise.







All team meetings, Pow Wows and workshops begin with a CARE Share, which is a key way of embedding a concept. CARE Shares might include a story about great customer service, a coaching opportunity or a new way to engage with our community.

#### **IS VITA GROUP 'A GREAT PLACE TO BE' FOR OUR PEOPLE?**

We wanted to know what our greatest assets – our Vita peeps – think about working at Vita, so, we asked them through an engagement survey, facilitated by a third-party provider.

The feedback told us what we're doing well and what we need to improve, and we're developing programs of work to match.

We know we can lift engagement by enabling our leaders and improving their understanding of the role they play in creating an engaging and meaningful team environment. This will make Vita an even better place to be. And we know that if it's a great place for our team members, then it will be a great place for our customers and shareholders alike.

## *Reward & Recognition*

**WE TAKE OUR BUSINESS VERY SERIOUSLY, BUT WE DON'T TAKE OURSELVES TOO SERIOUSLY. WE THINK IT'S OK TO WORK HARD AND HAVE FUN. THIS IS ILLUSTRATED IN THE WAY WE RECOGNISE AND REWARD OUR STARS AND RISING TALENT, WHICH INCLUDE:**

- A Pin program that recognises our best sales achievers
- A Shining Star program that supports peer-to-peer recognition for demonstrating the Vita values
- Our annual Leaders' Conference, where we bring together leaders and strategic partners such as Telstra and our suppliers to learn, plan and celebrate
- Our annual awards which recognise the best sales individuals and teams, coaches, values champions, leaders and rising stars
- Our annual fully-paid Club Success trip to an overseas destination. This year the best of the best went to New York to celebrate a record year
- Local Pow Wows each quarter, where teams are paid to get together, do something fun and work on ways to improve our business
- The CEO Challenge, which recognises our best achievers in customer advocacy
- A profit share program where sales leaders can receive up to 20% of every dollar above their target
- A huge range of sales incentives from our partners – rewarding the team for great sales and service

**IMPORTANTLY, THESE INCENTIVES ARE ONLY GIVEN IF TEAM MEMBERS ACHIEVE THEIR SUCCESS IN LINE WITH OUR VITA VALUES, DEMONSTRATING OUR MANTRA THAT *HOW YOU DO SOMETHING IS JUST AS IMPORTANT AS WHAT YOU DO.***



# OUR CUSTOMER FOCUS

**O**ur CARE (Customers Are Really Everything) program was founded based on Vita Group's unwavering focus on our customers. It started life 20 years ago as a framework of customer-focused tools and activities, such as sales processes, value-adds for customers and intensive training programs.

Now that CARE has evolved into an all-encompassing framework for the business, the customer component has its own stream in CARE: personalised service. This defines our promise to provide the very best, personalised customer experience.

**care**

*Our*  
**PEOPLE &  
CUSTOMERS  
ARE EVERYTHING  
TO US**





## OUR CUSTOMERS

### OUR CUSTOMERS' EXPERIENCE

*"Great customer service. He explained everything to me so clearly and made it a very pleasant experience"*

**TELSTRA STORE HORNSBY**

### VITA ENTERPRISE SOLUTIONS AND BUPA

Our success with BUPA is largely due to the way we demonstrate CARE through our personalised service. Our enterprise team provides the following to BUPA:

- Dedicated support team, email, and 1300 number
- Online ordering
- Proven ability and expertise in mobile device management, staging and project management
- Extended service desk hours
- Monthly reporting and account planning
- Advice on strategic planning for non-mobility products

*"The staff member who dealt with our complex request was extremely knowledgeable, friendly and ensured we understood the steps she was taking. Her customer service was exemplary and made our experience with Telstra easy and effortless"*

**TELSTRA STORE MORAYFIELD**

*"Many thanks for putting the session together. I found it concise and helpful and it has encouraged me to implement some strategies"*

**#DRIVINGBUSINESS ROADSHOW**

*"The young lady who served me was amazing. She was friendly, considerate and respectful of my age. As well, she was intelligent and well-informed about your products and plans"*

**TELSTRA STORE SETTLEMENT CITY**

*"Found the event very rewarding and it provided answers to many questions. Thanks"*

**#DRIVINGBUSINESS ROADSHOW**





# IN OUR COMMUNITIES

**C**ommunity engagement is important to every team member at Vita - it's part of CARE, which means it's part of *how we roll*. Importantly, our community includes our customers, the locals in our areas, our partners and suppliers, and our shareholders.

Our teams participate in causes that matter to their local community. A great example is our Telstra Morayfield team, who attended their local country music festival in a Telstra NBN Experience van while rocking their branded straw hats, overseeing the horse-shoe throwing competition, providing charging stations, offering lounge chairs and bean bags, and informing the community about the National Broadband Network coming to the area.

The team in Dandenong supported the Sri Lankan New Year festival, while the Geraldton team raised funds for a customer's son who suffers from a range of conditions including epilepsy and autism. These are examples of more 350 local events, 22,000 balloons, 150 schools and sporting clubs, and 125 charities that our retail teams have supported.

The SMB teams have staged more than 150 community engagement initiatives across our 13 geozones. Our Customer Sales and Service Managers are the local face of Telstra for small businesses in our communities.

*“Community engagement is important to every team member at Vita - it's part of CARE, which means it's part of how we roll”*





## #DRIVINGBUSINESS IN OUR COMMUNITIES

Our Telstra Business Centre roadshow #drivingbusiness was our best ever with more than 1000 attendees and 96% of businesses reporting that they would attend the next one.

Events were held in: Maryborough, Bundaberg, Gladstone, Rockhampton, Mackay, Townsville, Brisbane City, Brisbane North, Liverpool, Nowra, Mittagong, Wollongong, Central Coast, Morley, Geraldton and Hobart.

1,077  ATTENDEES

 16 LOCATIONS  
OVER 2 WEEKS

48 LOCAL PRESENTATIONS

1,583 CUPS OF TEA & COFFEE SERVED 

4,760 EMAILS SENT

2,154  EGGS SERVED!

96%

CUSTOMERS WOULD  
ATTEND AGAIN

8 GOOGLE   
MY BUSINESS  
REVIEWS

★ EVENT FEEDBACK  
RATED 4 STARS

17,900 IMPRESSIONS  
ON TWITTER

120 VR  
DEMONSTRATIONS

## OUR COMMUNITIES



### VITA ENTERPRISE SOLUTIONS HAS ALSO BEEN INVOLVED IN A LARGE NUMBER OF COMMUNITY ENGAGEMENT INITIATIVES INCLUDING:

Sponsoring Telstra's annual kick-off event in NSW, their inaugural charity bike ride in Victoria and staging a boardroom lunch for CIOs with professional services firm, Grant Thornton.

A number of VES team

members participated in Telstra's annual customer event, Vantage - partnering with Telstra to showcase VES' role in mobilising the Queensland Police Service with their landmark project.

From Telstra stores and TBCs through to enterprise, at Vita, community engagement is about more than simply giving back - it's about being one with our local communities.

*“It’s about more than simply giving back - it’s about being one with our local communities”*



# VITA FOUNDATION

**W**e're committed to making a difference in our local communities and to our national community. We're involved in our local communities in a number of ways, from proactive support of local charities and causes, through to reacting to local disasters in our communities, such as storms, fires and floods.

In FY16 we committed to giving \$250,000 to charities. In true Vita style, we exceeded that goal and gave a total of \$312,000.

This achievement was thanks to the Vita Foundation as well as significant contributions from our Vita peeps, who raised funds and volunteered.

The Vita Foundation selected a 'hero' charity to support in FY16, as we wanted to get behind a cause in a big way and make a meaningful difference. Following the input from the team, we announced a partnership with the team at Act for Kids – a charity whose goal is to prevent and treat the effects of child abuse and neglect.

The Vita Foundation, along with our dedicated team members, donated \$199,573 to *Act for Kids* in FY16 to roll out *Learn to Be Safe with Emmy and Friends*, a school-based five-week program teaching young children about safety and what to do if they feel unsafe. We're immensely proud that our contribution has allowed *Act for Kids* to expand their program nationally, now covering every state and territory of Australia.

Just as important as our hero charity, we wanted to spread our donations to causes across Australia. 96 charities across Australia benefited from our financial support, including \$30,000 to the team at Orange Sky Laundry, which was co-founded by a former Vita team member. We have also donated \$10,000 to the



## VITAFUNDATION

Australian Red Cross in support of Christmas bushfire victims in Western Australia and Victoria, \$13,000 to the Picton Mayoral Flood Relief Fund and over \$8,000 to The Smith Family.

In FY17, the Vita Foundation has committed to donate over \$350,000 to charities. We're also launching the Vita Foundation Grants program, where our team members can identify local charitable organisations and request a grant. It's just another way of connecting our teams to their local communities.

*“Act for Kids are very grateful for the support of the Vita Foundation. You're helping us to change kids' lives”  
- Dr. Neil Carrington,  
Act for Kids CEO*



## VITA FOUNDATION

THERE ARE FOUR WAYS THAT VITA PEOPLE GET INVOLVED WITH THE VITA FOUNDATION:

### 01 PAYROLL GIVING

Where team members can donate any amount, over any timeframe, through their pay. Some people have given amazing one-off donations, and some have committed to regular fortnightly amounts

### 02 PEER FUNDRAISING

Where anyone can set up a webpage and raise funds for their chosen registered charity. Often this will coincide with team events, such as True Grit, which recently saw over 60 Vita team members battle it out in the mud to raise over \$15K!

### 03 VOLUNTEER DAY OFF

Where team members can take one paid day off each year to volunteer for their registered charity. We also support leave for volunteering, as well as opportunities to share our skills with charities who need them

### 04 GRANTS PROGRAM

Where our frontline team members nominate not-for-profit community groups to receive one-off funding to support their work. \$100K of grants are awarded each year with nominations three times a year

*“This achievement was thanks to the Vita Foundation as well as significant contributions from our Vita peeps, who raised funds and volunteered”*



# Our VALUES

---



**A**t Vita, *how* we do things is just as important as *what* we do. Our eight values are just not words on a wall, they are embedded into our business: in our performance reviews, to the way we make decisions, right through to our strategy.

To ensure that our values are truly lived, our performance management framework has each team member at Vita measured on both *what* they achieve (their results) as well as *how* they achieve them (the way they live the values).



*Always do the right thing*

BE HONEST AND FOLLOW THE RULES

STAND UP FOR THE VALUES



*Dare to be different as creativity drives innovation*

CHALLENGE THE WAY WE DO THINGS, AND COME UP WITH A BETTER WAY



*We're proud to be profitable: profitability equals opportunity*

BE PROUD TO SELL - PROVIDE VALUE FOR YOUR CUSTOMER IN EACH AND EVERY INTERACTION - AND RECOGNISE THE OPPORTUNITIES IT BRINGS



*You get what you work for*

WORK HARD AND NEVER STOP LEARNING



*Our people and customers are everything to us*

GO THE EXTRA MILE FOR YOUR CUSTOMER AND YOUR TEAM MATES

TAKE THE TIME TO GIVE QUALITY COACHING INTERACTIONS



*The collective wisdom and effort of the team always outperforms the individual*

COLLABORATE TO SHARE BEST PRACTICE AND DRIVE THE BEST OUTCOMES FOR THE GROUP



*Every action is taken with the benefit of the whole team in mind*

MAKE THE RIGHT DECISIONS FOR THE TEAM, AND CHALLENGE 'SACRED COWS'



*Love what you do*

HAVE A REAL DRIVE TO DO THE BEST YOU CAN DO, AND TO SHARE BEST PRACTICE



OUR  
BOARD

---

*You* GET  
WHAT YOU  
WORK  
FOR



**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 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, including Tibra Capital, where he is an advisor to the board.



**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.





**NEIL OSBORNE**  
INDEPENDENT  
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 of 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 (independent supermarkets) and a Non-Executive Director of Beacon Lighting Group Limited. Neil previously held office as Director of Lovisa Holdings Limited until 17 November 2015.

Neil is a Certified Practising Accountant and a Fellow of the Australian Institute of Company Directors.

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



**ROBYN WATTS**  
INDEPENDENT  
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 Fantastic Holdings Limited and Chair of the People & Remuneration Committee. She is also currently on the board of Geyer Pty Ltd (private company) and Australian School of Performing Arts Pty Ltd (private company) and she sits on the board of Governors for ANU Endowment and Camp Quality. Robyn is also a mentor through McCarthy Mentoring and 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 & Risk Committee, and Chair of the Remuneration & Nomination Committee.



## OUR BOARD



### **PAUL WILSON** INDEPENDENT NON-EXECUTIVE DIRECTOR

Paul is a co-founder and Director of ASX-listed Bailador Technology Investments Ltd, 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); Chairman of iPRO (cloud based vendor management software); 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.



# Our GROUP LEADERSHIP TEAM

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**KENDRA HAMMOND**  
CHIEF PEOPLE OFFICER

Kendra leads the People and Performance (P&P) division, which includes human resources (HR), talent acquisition, learning and development and organisational development. P&P is integral in driving our strategy to create and enable high-performing teams, which underpins the group's strategy for the future.

Kendra joined Vita Group in 2007 and has undertaken roles including human resources management, organisational development and project management for the group. She was appointed to the role of Chief People Officer in 2011.

Prior to joining Vita Group, Kendra worked in various senior corporate roles in HR as well as retail sales leadership. Previous roles include HR Strategy Advisor at Suncorp and Area Manager at National Australia Bank.



**PETE CONNORS**  
CHIEF OPERATING OFFICER

Pete leads the Vita Group's operational channels, which includes Telstra and Fone Zone stores, contact centres, Telstra Business Centres, Vita Enterprise Solutions, and One Zero dealers.

Pete is responsible for leading these teams to deliver the very best customer experience to our customers.

Prior to joining Vita Group in 2008, Pete held various general management roles in global manufacturing and product development organisations. His previous roles include General Manager Residential at ASSA ABLOY Australia, General Manager Industrial Division at EGR, General Manager Domestic and International Marketing and Product Development at GWA Caroma.



**CHRIS  
PRESTON**  
CHIEF  
MARKETING  
OFFICER

Chris is an experienced marketing leader with hands-on experience in Australia and North America. At Vita Group, Chris leads the Marketing, Product and Sprout teams. He is responsible for strategic marketing planning, brand development, digital marketing, product innovation and leading the Sprout accessory brand.

Before joining Vita Group in 2014, Chris was the Group Conversion Marketing Manager for Stockland's portfolio of residential, retirement and shopping centre assets and was the Global Corporate Marketing Leader for Flight Centre, where he was responsible for creating and executing the marketing strategy for Flight Centre's corporate travel division.

**ANDREW  
LEYDEN**  
CHIEF FINANCIAL  
OFFICER

Andrew leads the Finance and IT teams and is responsible for internal and external reporting, financial accounting and tax, retail and business channel service, property, business planning, information technology, servicing the information needs of investors, commercial finance, internal assurance and treasury operations.

Before joining Vita Group in 2011, Andrew held a number of leadership positions in general management, finance and IT. Previous roles include Chief Information Officer for Foster's Group, Global Finance Director for Foster's Wine Estates, Managing Director – Asia for Beringer Blass Wine Estates and Regional Financial Director, Asia for Reckitt Benckiser.



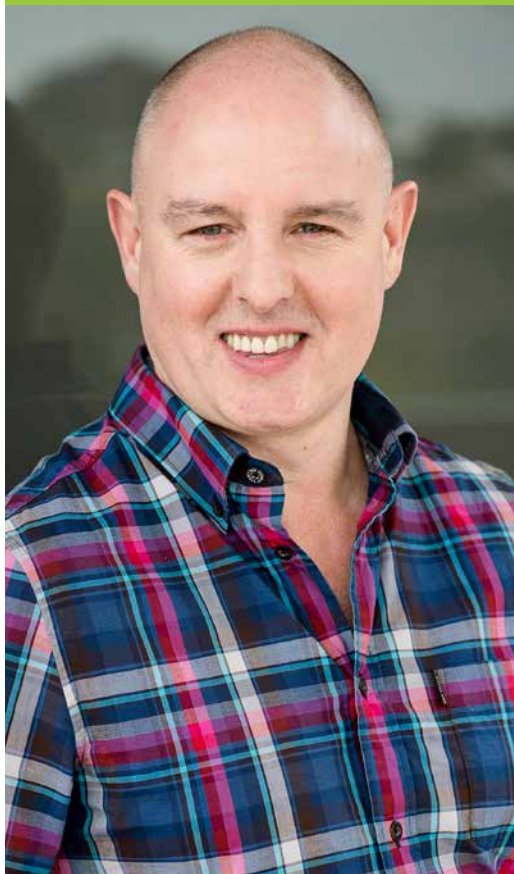
**MARK ANNING**  
GROUP COMPANY  
SECRETARY AND  
LEGAL COUNSEL

Mark was appointed Company Secretary and Legal Counsel on 10 November 2009. Mark was admitted as a Solicitor of the Supreme Court of Queensland, 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 Chartered Secretaries Australia and former Deputy Chairman of Queensland State Council.

Mark's prior role was as Group Company Secretary of Queensland Gas Company Limited.









## **Vita Group Limited**

**ABN 62 113 178 519**

## **Financial Report**

**for the year ended 30 June 2016**





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## CORPORATE GOVERNANCE AND INFORMATION

ABN 62 113 178 519

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

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/cus/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 pages 8 to 10.

### 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

---

Your Directors submit their report for the year ended 30 June 2016.

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:

### DIRECTORS

#### **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 a member of 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.

#### **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), 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 & Risk Committee, and a member of the Remuneration & Nomination Committee.



## DIRECTORS' REPORT (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 Fantastic Holdings Limited (ASX: FAN) and Chair of the People & Remuneration Committee. She is also currently on the board of Geyer Pty Ltd (private company) and Australian School of Performing Arts Pty Ltd (private company) and she sits on the board of Governors for ANU Endowment and Camp Quality. Robyn is also a mentor through McCarthy Mentoring and 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 & Risk Committee, and Chair of the Remuneration & 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); Chairman of iPRO (cloud based vendor management software); 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.

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

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

Directors	Number of Ordinary shares held at 30 June 2015	Number of Ordinary shares purchased/(sold)	Number of Dividends Reinvested	Number of Ordinary shares held at 30 June 2016
Dick Simpson	188,810	(100,597)	2,735	90,948
Maxine Horne	54,270,403	(15,000,000)	-	39,270,403
Neil Osborne	271,342	-	-	271,342
Robyn Watts	22,038	-	1,220	23,258
Paul Wilson	45,000	-	-	45,000

## DIRECTORS' REPORT (continued)

### DIRECTORS' MEETINGS

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

The members of each committee during the year were:

Audit, Compliance & Risk Committee	Remuneration & Nomination Committee
Neil Osborne (c)	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	13	13	4	4	2	2
Maxine Horne	13	13	*	*	*	*
Neil Osborne	13	13	4	4	2	2
Robyn Watts	13	13	4	4	2	2
Paul Wilson	13	13	4	4	2	2

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

### 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 Chartered Secretaries Australia 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 2015		
- on ordinary shares	3.86	5,834
Special dividend for the year ended 30 June 2015		
- on ordinary shares	2.00	3,023
Interim dividend for the year ended 30 June 2016		
- on ordinary shares	5.76	8,718
		<b>17,575</b>

Since the end of the financial year, the Directors have approved the payment of a final fully franked ordinary dividend of \$12,449,596 (8.21 cents per fully paid share) to be paid in September 2016 (FY15: \$5,834,484). Record date for the final dividend will be 16 September 2016, with payment date being 30 September 2016.



## DIRECTORS' REPORT (continued)

### PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were the selling and marketing of technology and communication products and services through its retail store brands, Telstra, Fone Zone, and One Zero, and through its small to medium business (SMB) and government and enterprise channels in Australia. There were no significant changes in the nature of the Group's activities during the year.

### OPERATING AND FINANCIAL REVIEW

#### Highlights

In FY16 Vita continued its record of sustained growth built on its "people first" mantra. The result was primarily driven by continued growth in Vita's portfolio of Telstra retail stores and a higher revenue contribution from the SMB and enterprise channels.

In retail, four Telstra licensed stores were acquired during the year, while the consolidation of the Fone Zone, One Zero and Next Byte brands continued. The Telstra branded portfolio grew strongly, reflecting improved like-for-like performance and the contribution from new stores, underpinned by strong customer advocacy. During the period, the Group announced the closure of its eight remaining Next Byte retail stores and, in the first quarter of 2016, this was successfully completed.

The SMB channel expanded in the year, from 16 to 21 Telstra Business Centres (TBCs), including one closure, and also grew revenues in existing geographies. Improved operating disciplines and focus on a broader product offering benefited results in the period.

In the enterprise channel, the year saw continued investment in sales and technical talent to support a much broader product and service portfolio particularly in the cloud, collaboration and professional and managed services categories. The channel recorded a number of significant account wins during the year.

The board declared a fully-franked dividend of 13.97 cents per share (cps) for the year, including the interim dividend of 5.76cps paid in April. The full-year dividend was an increase of 75% on the previous year.

#### Group Results

Group revenues from continuing operations grew 19% to \$645.1 million during the year. EBITDA from continuing operations, a measure used by the Group as a proxy for cash profitability, grew strongly, up 31% to \$66.1 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, underlying EBITDA from continuing operations for the year was \$62.0 million, up 55%.

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:

	FY16 \$m	FY15 \$m
Profit before tax from continuing operations	53.8	38.1
Add: net finance costs	1.0	1.3
Add: depreciation and amortisation	11.2	11.0
Less: non-cash benefit of discontinued proprietary products	(4.0)	(10.5)
<b>Underlying EBITDA from continuing operations</b>	<b>62.0</b>	<b>39.9</b>

#### Retail

In retail, the strong performance reflected like-for-like growth in revenue (17%) and EBITDA (25%) from the Telstra portfolio, both a consequence of sustained focus on people development and productivity, and also the benefits arising from the continued optimisation of the physical footprint. Work is underway to further drive consistency of performance across individual retail stores – with the best-performing outlets as the benchmark. This provides significant scope for continued growth.

#### Small to Medium Business (SMB)

Momentum is evident in the SMB channel, with revenue up 8% on a like-for-like basis. Five TBCs were added during FY16, bringing the total to 21 as at year end, spread over 13 geographic zones of operation (geo-zones). Recent TBC growth has delivered meaningful scale to Vita's platform for servicing SMB customers and, coupled with ongoing collaboration with Telstra to optimise the SMB product and service offering, this positions Vita for revenue and profit growth in a market segment that continues to be fragmented.

## DIRECTORS' REPORT (continued)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Enterprise

Vita continued its investment in the enterprise channel. This is Vita's platform for competing at scale in the professional and managed services market, with an emphasis on delivering professional and managed services capability. The channel recorded a number of significant account wins during the year, a result of a clear focus on developing leadership and sales capability, whilst also seeing pleasing growth in its annuity revenue stream and opportunity pipeline.

Vita's SMB and enterprise channels remain key strategic growth opportunities for the Group with both channels expected to deliver a material contribution to Group earnings over the medium to long term.

#### Balance Sheet

The Group generated \$49.1 million in operating cash flows after interest and tax reflective of the strong uplift in earnings during the year and strong cash collections. Capital investment was \$27.1 million, up on prior year with increased acquisition activity and investments in IT. Dividends of \$17.6 million were paid and \$1.2 million of new share capital was issued through the Dividend Reinvestment Plan. Gross debt was reduced by \$2.4 million to \$15.8 million at period end, and cash balances including term deposits were \$8.8 million higher than the previous year leaving a net cash position of \$8.6 million (cash and current term deposits \$24.4 million less debt \$15.8 million) at year end.

#### Dividends

The board approved a total ordinary dividend for the year of 13.97cps, fully franked, which represents an increase of 75% on the prior year (FY15: 7.98cps) and a payout ratio of 65% of profits after tax (excluding the non-cash benefit from Vita's discontinued proprietary warranty/swap products). The interim dividend paid in the year was 5.76cps (FY15: 4.12cps).

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 16 September 2016 with payment to be made on 30 September 2016.

#### The Future

Group priorities for FY17 and beyond are:

- Continuing to optimise the performance of retail by investing in people to improve leadership qualities, sales capability and execution, and to drive customer advocacy;
- Capture opportunities in the SMB channel, drive growth across a broad range of product categories, build team member capabilities and continue to build scale;
- Build on the platform established in enterprise, embed new leadership credentials and grow the sales pipeline across a broadening range of product categories.

#### Shareholder Returns

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

	FY16	FY15
Basic earnings per share (cents)	23.37	17.40
Underlying earnings per share* (cents) from continuing operations	23.29	13.14
Net debt/(net debt plus total equity)**	(14.6%)	(4.8%)

\*Excludes amortisation of proprietary products.

\*\*Includes term deposits.

The share price at 30 June 2016 was \$4.11 (FY15: \$1.70).

#### Review of Financial Condition

The consolidated statement of cash flows shows an operating cash flow of \$49.1 million, compared to the previous year of \$35.2 million. Cash and cash equivalents (including term deposits) at 30 June 2016 was \$24.4 million, compared to \$15.6 million at the end of the previous year.



## DIRECTORS' REPORT (continued)

### OPERATING AND FINANCIAL REVIEW (continued)

#### Profile of Debts

	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Obligations under finance leases, hire purchase contracts and chattel mortgages	-	62
Short term debt	11,536	7,738
	<b>11,536</b>	<b>7,800</b>
<b>Non-current</b>		
Non-current term debt	4,249	5,594
	<b>4,249</b>	<b>5,594</b>
<b>Total</b>	<b>15,785</b>	<b>13,394</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 (14.6%) to be within acceptable limits.

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

#### SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no other 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 purposes of taking responsibility on behalf of the company for all or part of those proceedings.

#### ROUNDING

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 (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 2016.

#### 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 2016 were:

Key Management Personnel	Position
<b>Directors</b>	
Dick Simpson	Chairman (Independent Non-Executive Chairman)
Maxine Horne	Chief Executive Officer
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
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 sought advice from KPMG. KPMG did not provide "remuneration recommendations" for the purposes of the Corporations Act. KPMG provided advice on market practice incentive arrangements, executive remuneration benchmarking and reporting, including current market practices.



## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### AGM Results

The Group received more than 96.97% of "yes" votes on its 2015 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 five prior years are as follows:

	FY16 \$m	FY15 \$m	FY14 \$m	FY13 \$m	FY12 \$m	FY11 \$m
Revenue	670.0	601.4	450.1	434.7	410.4	386.9
<b>Net profit/(loss) after Tax</b>	<b>35.4</b>	<b>25.4</b>	<b>(4.6)</b>	<b>6.2</b>	<b>(12.0)</b>	<b>6.8</b>
Dividends declared	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>	<b>cents</b>
Ordinary (cps)	13.97	7.98	4.64	2.83	1.50	3.10
Special (cps)	-	8.00	-	-	-	-
	<b>13.97</b>	<b>15.98</b>	<b>4.64</b>	<b>2.83</b>	<b>1.50</b>	<b>3.10</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Basic earnings per share	23.37	17.40	(3.26)	4.35	(8.44)	4.80
Underlying earnings per share from continuing operations*	23.29	13.14	8.53	6.07	3.01	1.27
<b>Total shareholder return</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Share price beginning of year	1.70	0.74	0.62	0.25	0.22	0.22
Share price end of year	4.11	1.70	0.74	0.62	0.25	0.22
Dividends paid	0.12	0.13	0.04	0.02	0.02	-
Total shareholder return %	149%	147%	26%	156%	23%	-

The discontinued operation is included in the above table.

\* Underlying earnings per share excludes amortisation of proprietary products (FY14-FY16), impairment of Next Byte (FY12 & FY14), and trailing commissions (FY11)

## DIRECTORS' REPORT (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
Fixed Pay	<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>
STIP	<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 for the Executives:</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 – based on specific performance goals are appropriately chosen for individual's role responsibilities. The individual performance measures ensure our leadership team are rewarded for demonstrating behaviours consistent with the Group's values to achieve short and long-term strategic objectives.</li> </ul>
LTIP	<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 ensures continued focus on delivering consistent growth in Group profits.</li> <li>• In addition, the three year vesting period ensures the LTIP supports the retention of managerial talent.</li> </ul> <p>In FY17, the LTIP will be 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>From FY17 the LTIP will be delivered in the form of equity, to ensure executive reward is aligned with shareholder value.</p>
Total Remuneration	<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>

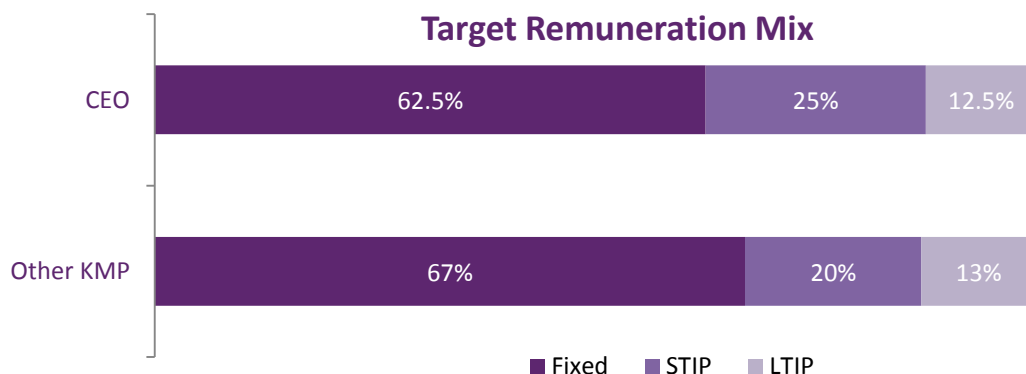


## DIRECTORS' REPORT (continued)

### 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 50<sup>th</sup> to 75<sup>th</sup> percentile of an appropriate comparative group.

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. During the year, the Board engaged KPMG to undertake an independent benchmarking exercise. This benchmarking data will be utilised for KMP fixed and variable remuneration reviews moving forward.

## DIRECTORS' REPORT (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	
Objective	Support the Group's strategic objectives by rewarding executives for driving and exceeding Vita's annual financial performance plan.
Eligibility	Executives and selected senior leaders.
Instrument	Cash
Opportunity	CEO: 40% FAR* Other KPM: 30% FAR*
Performance Period	1 July 2015 – 30 June 2016
Performance Measures	Group EBITDA and individual performance rating for the period determine the amount, if any, of STIP that is paid to each participant.
Gateway	Threshold Group EBITDA of 95% target must be achieved before any STIP may be paid.
	The Board retains discretion to permit some or all of the STIP 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 FY16.
Assessment of Performance	<p>The amount of STIP payable is calculated based on:</p> <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 shareholders; and</li> <li>Individual performance rating - as reviewed by the CEO 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 KPIs.</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 outlined below.</p>

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

#### 2016 STIP Outcomes

For the 2016 financial year, the Board set both Group and individual performance measures for the CEO, which were substantially cascaded by the CEO to senior executives. During 2016, the Group delivered exceptional results and growth, and the outcome of the STI rewards executives accordingly. The Board has reviewed both Group and individual performance, and is satisfied that STI payments for 2016 reflect the exceptional results and appropriately rewards executives for their performance.



## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### Short Term Incentive Plan (STIP) (continued)

##### 2016 STIP Outcomes (continued)

The table below outlines the 2016 STI payments for each KMP, expressed as a percentage of target STI opportunity. Due to the exceptional financial performance achieved, each executive's 2016 STI payment, calculated in line with the pre-determined STI formula, was above target.

KMP Name	Target STIP Opportunity \$	Actual Achievement \$	% Target Achieved
Maxine Horne	314,768	615,371	195%
Andrew Leyden	171,000	334,305	196%
Chris Preston	82,269	160,836	196%
Kendra Hammond	99,000	193,545	196%
Mark Anning	93,402	166,722	178%
Peter Connors	156,156	305,284	195%

#### 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 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.

FY16 – LTIP Component	
Eligibility	KMP only
Instrument	Cash
Quantum	All participants are eligible to receive 20% of FAR*
Frequency	Granted annually
Performance Period	1 July 2015 – 30 June 2016
Performance Hurdles	Group Net Profit After Tax
Performance Assessment	100% of target NPAT must be achieved before any LTIP is paid
Vesting Schedule	Where the performance hurdles have been achieved, the LTIP will vest evenly over three years as follows: <ul style="list-style-type: none"> <li>• 1/3<sup>rd</sup> September 2016</li> <li>• 1/3<sup>rd</sup> September 2017</li> <li>• 1/3<sup>rd</sup> September 2018</li> </ul>

\* LTIP is calculated as a percentage of Fixed Annual Reward ("FAR") which includes base salary and superannuation only.

##### 2016 LTIP Outcomes

The outstanding FY16 performance resulted in 100% of the 2016 LTI awards vesting in three equal instalments over the next three financial years.

KMP Name	Target LTIP Opportunity \$	Actual Achievement \$	% Target Achieved
Maxine Horne	157,384	157,384	100%
Andrew Leyden	114,000	114,000	100%
Chris Preston	54,846	54,846	100%
Kendra Hammond	66,000	66,000	100%
Mark Anning	62,268	62,268	100%
Peter Connors	104,104	104,104	100%

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### 2017 Long Term Incentive Plan

FY17 – LTIP Component																							
<b>Eligibility</b>	KMP only																						
<b>Instrument</b>	Performance rights to acquire ordinary Vita Group shares																						
<b>Quantum</b>	<p>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.</p> <p>The fixed dollar amount is determined as a percentage of FAR, as follows:</p> <ul style="list-style-type: none"> <li>• CEO: 30% FAR</li> <li>• Other KMP: 20% FAR</li> </ul>																						
<b>Frequency</b>	Performance rights granted annually																						
<b>Performance Period</b>	1 July 2016 – 30 June 2019																						
<b>Performance Conditions</b>	<p>The Board have selected two performance measures being:</p> <ul style="list-style-type: none"> <li>• 50% weighting on Absolute Earnings Per Share (EPS);</li> <li>• 50% weighting on Relative TSR compared to the S&amp;P ASX 300 Index.</li> </ul> <p>These performance measures were selected to ensure executive remuneration is better aligned with the creation of shareholder value</p>																						
<b>Vesting Schedule</b>	<p>Performance is assessed according to a scale of performance. The vesting schedule is designed to ensure no LTIP is paid for performance outcomes below threshold, which has been set at a challenging level.</p> <p>In order to encourage outperformance, stretch LTIP is available where exceptional results are achieved.</p> <table> <tr> <th></th><th>EPS</th><th>Relative TSR</th></tr> <tr> <td><b>Vesting %</b></td><td>Performance achieved</td><td>TSR percentile rank against comparator group</td></tr> <tr> <td><b>Nil</b></td><td>&lt; Threshold</td><td>&lt;50<sup>th</sup> percentile</td></tr> <tr> <td><b>50%</b></td><td>Threshold</td><td>50<sup>th</sup> percentile</td></tr> <tr> <td><b>50-100% on a straight line</b></td><td>Between threshold and target</td><td>50<sup>th</sup> to 75<sup>th</sup> percentile</td></tr> <tr> <td><b>100-125%</b></td><td>Between target and stretch</td><td>75<sup>th</sup> to 100<sup>th</sup> percentile</td></tr> <tr> <td><b>125%</b></td><td>Stretch</td><td>100<sup>th</sup> percentile</td></tr> </table> <p>The LTIP will vest immediately following release of the FY19 financial results.</p>			EPS	Relative TSR	<b>Vesting %</b>	Performance achieved	TSR percentile rank against comparator group	<b>Nil</b>	< Threshold	<50 <sup>th</sup> percentile	<b>50%</b>	Threshold	50 <sup>th</sup> percentile	<b>50-100% on a straight line</b>	Between threshold and target	50 <sup>th</sup> to 75 <sup>th</sup> percentile	<b>100-125%</b>	Between target and stretch	75 <sup>th</sup> to 100 <sup>th</sup> percentile	<b>125%</b>	Stretch	100 <sup>th</sup> percentile
	EPS	Relative TSR																					
<b>Vesting %</b>	Performance achieved	TSR percentile rank against comparator group																					
<b>Nil</b>	< Threshold	<50 <sup>th</sup> percentile																					
<b>50%</b>	Threshold	50 <sup>th</sup> percentile																					
<b>50-100% on a straight line</b>	Between threshold and target	50 <sup>th</sup> to 75 <sup>th</sup> percentile																					
<b>100-125%</b>	Between target and stretch	75 <sup>th</sup> to 100 <sup>th</sup> percentile																					
<b>125%</b>	Stretch	100 <sup>th</sup> percentile																					
<b>Dividends</b>	No dividends or dividend equivalents are paid or accrued on unvested performance rights.																						
<b>Clawbacks</b>	The Board retain discretion to clawback or adjust any LTIP which has vested or remains unvested as a result of a material misstatement in, or omission from, the financial statements or otherwise as a result of fraud, dishonesty or breach of obligations																						

## DIRECTORS' REPORT (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	
	\$	\$	\$	\$	\$	\$	\$	
Executive Director								
Maxine Horne								
2016	749,433	-	61,302	483,427	35,000	127,360	26,193	1,482,715
2015	660,181	-	65,390	291,089	36,346	78,529	25,680	1,157,215
Other Group KMP								
Adam Taylor (Resigned: 22 May 2015)								
2016	-	-	-	-	-	-	-	-
2015	222,451	37,759	-	96,952	36,115	26,198	(2,211)	417,264
Andrew Leyden (d)								
2016	564,240	-	32,494	302,377	-	99,504	-	998,615
2015	537,560	-	-	169,048	-	63,666	-	770,274
Chris Preston								
2016	249,471	-	19,337	104,779	35,887	22,540	-	432,014
2015	227,135	-	-	36,316	26,237	7,017	-	296,705
Kendra Hammond (Appointed: 8 September 2015)								
2016	263,416	-	1,279	-	21,142	-	44,528	330,365
2015	-	-	-	-	-	-	-	-
Mark Anning								
2016	295,149	-	19,337	127,033	20,917	47,754	23,433	533,623
2015	241,713	-	-	76,938	18,783	28,934	925	367,293
Peter Connors								
2016	504,092	-	19,337	262,428	25,000	79,436	35,069	925,362
2015	425,722	-	9,493	150,000	25,961	48,334	37,884	697,394
Total KMP Compensation								
2016	2,625,801	-	153,086	1,280,044	137,946	376,594	129,223	4,702,694
2015	2,314,762	37,759	74,883	820,343	143,442	252,678	62,278	3,706,145

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

(b) This report reflects STI bonuses paid in FY16 relating to FY15 entitlements. The annual bonus in FY15 reflects bonus paid in FY15 relating to FY14 entitlements.

(c) This report reflects bonuses paid in FY16 relating to FY13, FY14 and FY15 entitlements. Payments relating to FY16 will be in FY17, FY18 and FY19 and reflected in FY17, FY18 and FY19's remuneration report. The LTIP bonus paid in FY15 reflects bonus paid in FY15 relating to FY13 and FY14 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 is due for review on 3 October 2016. Mr Leyden is responsible for his own superannuation arrangements. Leave provisions have been made for Mr Leyden on a non-accruing entitlement basis.



## DIRECTORS' REPORT (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 2015	Number Granted as Remuneration	Number Purchased/ (Sold)	Number of Dividends Reinvested	Number Held at 30 June 2016
Maxine Horne	54,270,403	-	(15,000,000)	-	39,270,403
Adam Taylor - resigned 22 May 2015	-	-	-	-	-
Andrew Leyden	101,039	-	9,155	5,768	115,962
Chris Preston	-	-	-	-	-
Kendra Hammond - appointed 8 September 2015	-	-	-	-	-
Mark Anning	-	-	-	-	-
Peter Connors	209,919	-	-	-	209,919

#### 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 at any time without notice if serious misconduct has occurred.
Andrew Leyden <sup>(a)</sup>	3 October 2015	Agreement due for review 3 October 2016, and terminate 3 October 2017	16 weeks	16 weeks	The Group may terminate the Contract at 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 at any time without notice if serious misconduct has occurred.

(a) 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.

#### 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.

## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT (AUDITED) (continued)

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

In determining the appropriate level of fees, the Board has regard for market practice and survey data. From September 2015, the Board approved an increase to the Board fees to reflect market conditions.

Director's fees, as outlined in the table below as at 30 June 2016, 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 \$	Termination Payments \$	Non- monetary Benefits \$	Cash Bonus \$	Superannuation \$	Cash Bonus \$	Long Service Leave \$	
Dick Simpson								
2016	191,058	-	-	-	14,825	-	-	205,883
2015	169,223	-	-	-	16,076	-	-	185,299
Neil Osborne								
2016	94,011	-	-	-	8,931	-	-	102,942
2015	84,611	-	-	-	8,038	-	-	92,649
Paul Wilson (a)								
2016	102,942	-	-	-	-	-	-	102,942
2015	92,650	-	-	-	-	-	-	92,650
Robyn Watts								
2016	94,011	-	-	-	8,931	-	-	102,942
2015	84,611	-	-	-	8,038	-	-	92,649
Total Non-executive Directors Compensation								
2016	482,022	-	-	-	32,687	-	-	514,709
2015	431,095	-	-	-	32,152	-	-	463,247

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

## **DIRECTORS' REPORT (continued)**

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### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

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

### **INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

#### **Indemnification**

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

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

#### **Insurance Premiums**

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

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

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

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



## DIRECTORS' REPORT (continued)

### 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 23.

#### Non-Audit Services

The following non-audit services were provided by the company's auditor, Grant Thornton. 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 received or are due to receive the following amounts for the provision of non-audit services:

	FY16 \$	FY15 \$
Grant Thornton (FY15: PricewaterhouseCoopers)		
Tax compliance and consulting services	71,698	39,760
Other assurance services	-	17,471
	<b>71,698</b>	<b>57,231</b>

Signed in accordance with a resolution of the Directors.



Dick Simpson  
Chairman

Brisbane  
31 August 2016



Maxine Horne  
Director and Chief Executive Officer

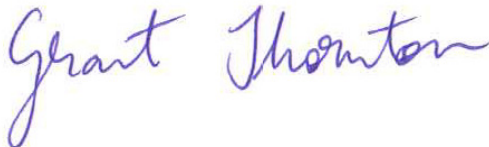
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### **Auditor's Independence Declaration To the Directors of Vita Group Limited**

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 2016, 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, 31 August 2016

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. Liability is limited in those States where a current scheme applies.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 JUNE 2016

	Note	FY16 \$'000	FY15 \$'000
Continuing operations			
Sale of goods and services		465,378	394,264
Fee and commission revenue		179,734	147,245
<b>Revenue</b>	3	<b>645,112</b>	<b>541,509</b>
Cost of sales		(414,460)	(345,751)
<b>Gross profit</b>		<b>230,652</b>	<b>195,758</b>
Other income	3	10,926	8,234
Employment expenses	4	(122,537)	(105,069)
Marketing and advertising expenses		(9,389)	(8,568)
Operating lease rental expenses	4	(20,350)	(19,357)
Administration expenses		(19,453)	(16,310)
Other expenses		(3,795)	(4,253)
		<b>66,054</b>	<b>50,435</b>
Depreciation and amortisation	4	(11,244)	(11,009)
		<b>54,810</b>	<b>39,426</b>
Interest income		439	433
Finance costs		(1,401)	(1,742)
<b>Net finance costs</b>	4	<b>(962)</b>	<b>(1,309)</b>
<b>Profit before income tax from continuing operations</b>		<b>53,848</b>	<b>38,117</b>
Income tax (expense)		(15,821)	(11,561)
<b>Profit from continuing operations</b>		<b>38,027</b>	<b>26,556</b>
Discontinued operations, net of tax	2	(2,656)	(1,154)
<b>Profit for the year</b>		<b>35,371</b>	<b>25,402</b>
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year, attributable to the ordinary equity holders of Vita Group Limited</b>		<b>35,371</b>	<b>25,402</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company</b>			
- basic (cents per share)	23	25.12	18.19
- diluted (cents per share)		25.12	18.19
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>			
- basic (cents per share)	23	23.37	17.40
- diluted (cents per share)		23.37	17.40

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



## CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2016

	Note	FY16 \$'000	FY15 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	13	19,419	15,616
Term deposits	14	5,025	-
Trade and other receivables	5	33,790	29,296
Inventories	6	14,610	14,567
<b>Total Current Assets</b>		<b>72,844</b>	<b>59,479</b>
<b>Non-current Assets</b>			
Term deposits	14	-	25
Plant and equipment	7	13,907	17,277
Intangible assets and goodwill	8	70,189	54,891
Deferred tax assets	12	9,703	9,700
<b>Total Non-current Assets</b>		<b>93,799</b>	<b>81,893</b>
<b>TOTAL ASSETS</b>		<b>166,643</b>	<b>141,372</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	67,247	67,394
Interest bearing loans and borrowings	15	11,536	7,800
Income tax liability		7,385	2,358
Provisions	11	3,879	2,832
<b>Total Current Liabilities</b>		<b>90,047</b>	<b>80,384</b>
<b>Non-current Liabilities</b>			
Trade and other payables	10	1,149	2,770
Interest bearing loans and borrowings	15	4,249	5,594
Provisions	11	3,212	3,632
<b>Total Non-current Liabilities</b>		<b>8,610</b>	<b>11,996</b>
<b>TOTAL LIABILITIES</b>		<b>98,657</b>	<b>92,380</b>
<b>NET ASSETS</b>		<b>67,986</b>	<b>48,992</b>
<b>EQUITY</b>			
Contributed equity	24	25,724	24,526
Retained earnings	24	42,262	24,466
<b>TOTAL EQUITY</b>		<b>67,986</b>	<b>48,992</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 2016

	Attributable to equity holders of the parent		
	Contributed equity \$'000	Retained earnings \$'000	Total equity \$'000
At 1 July 2014	13,079	17,661	30,740
Profit for the year	-	25,402	25,402
<b>Total comprehensive income for the year</b>	-	<b>25,402</b>	<b>25,402</b>
Transactions with owners in their capacity as owners:			
Dividend Reinvestment Plan net of costs	11,447	-	11,447
Dividends (paid)	-	(18,597)	(18,597)
<b>At 30 June 2015</b>	<b>24,526</b>	<b>24,466</b>	<b>48,992</b>
At 1 July 2015	24,526	24,466	48,992
Profit for the year	-	35,371	35,371
<b>Total comprehensive income for the year</b>	-	<b>35,371</b>	<b>35,371</b>
Transactions with owners in their capacity as owners:			
Dividend Reinvestment Plan net of costs	1,198	-	1,198
Dividends (paid)	-	(17,575)	(17,575)
<b>At 30 June 2016</b>	<b>25,724</b>	<b>42,262</b>	<b>67,986</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 2016

	Note	FY16 \$'000	FY15 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		701,160	581,495
Payments to suppliers and employees (inclusive of GST)		(638,493)	(538,043)
Interest received		440	433
Finance costs		(1,371)	(1,680)
Income tax (paid)		(11,352)	(7,910)
<b>Net cash flows from continuing operations</b>		<b>50,384</b>	<b>34,295</b>
Net cash flows from discontinued operations		(1,287)	890
<b>Net cash flows from operating activities</b>	13	<b>49,097</b>	<b>35,185</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(8,861)	(4,484)
Purchase of software		(3,272)	(302)
Payments for acquisitions	9	(14,990)	(11,055)
Proceeds from sale of property, plant & equipment		4	50
Store sale		770	-
Funds invested		(4,975)	-
<b>Net cash flows (used in) continuing operations</b>		<b>(31,324)</b>	<b>(15,791)</b>
Net cash flows from/(used in) discontinued operations		16	(183)
<b>Net cash flows (used in) investing activities</b>		<b>(31,308)</b>	<b>(15,974)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		14,978	11,966
Repayment of borrowings		(12,587)	(13,992)
Repayment of finance lease principal		-	(588)
Issue of share capital		1,198	11,447
Dividends paid	16	(17,575)	(18,597)
<b>Net cash flows (used in) continuing operations</b>		<b>(13,986)</b>	<b>(9,764)</b>
Net cash flows (used in) discontinued operations		-	(897)
<b>Net cash flows (used in) financing activities</b>		<b>(13,986)</b>	<b>(10,661)</b>
Net increase in cash and cash equivalents		3,803	8,550
Cash and cash equivalents at beginning of year		15,616	7,066
<b>Cash and cash equivalents at end of the year</b>	13	<b>19,419</b>	<b>15,616</b>

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



## NOTES TO THE FINANCIAL STATEMENTS: FINANCIAL OVERVIEW

### FOR THE YEAR ENDED 30 JUNE 2016

#### 1. SEGMENT REPORTING

As announced to the market in December 2015 the Group's remaining Next Byte stores were to progressively close in the first quarter of 2016. The closure of these stores is now complete and the Group has reviewed the way it presents segment information under *AASB 8 Operating Segments*.

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 \$183,768,546 (FY15: \$151,828,811) 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 ending 30 June 2016, 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.

	FY16 \$'000	FY15 \$'000
Revenue	25,148	60,138
Expenses	(28,941)	(61,785)
<b>(Loss) before income tax</b>	<b>(3,793)</b>	<b>(1,647)</b>
Income tax benefit	1,137	493
<b>(Loss) from discontinued operations</b>	<b>(2,656)</b>	<b>(1,154)</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 2016 are \$1,205,922. A discontinued operation is a component of the entity that 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
- 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

Continuing operations	FY16 \$'000	FY15 \$'000
Revenue		
Sale of goods	462,762	392,723
Contract revenue	2,616	1,541
Fee and commission revenue	179,734	147,245
	<b>645,112</b>	<b>541,509</b>
Other income		
Cooperative advertising revenue	8,852	7,710
Other miscellaneous income	2,074	524
	<b>10,926</b>	<b>8,234</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 measureable 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 FINANCIAL STATEMENTS: FINANCIAL OVERVIEW (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

### 3. REVENUE (continued)

#### *Recognition and measurement (continued)*

The Group has chosen to early adopt and apply AASB 15 Revenue from Contracts with Customers. 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 when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery or installation of the goods to the customer.

#### *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 2016, 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.

### 4. EXPENSES

	FY16 \$'000	FY15 \$'000
<b>Continuing operations</b>		
<b>Net finance costs</b>		
Finance charges under finance leases	-	6
Finance charges under hire purchase contracts and chattel mortgages	2	162
Provisions: unwinding of discount	73	118
Line facility fee	795	732
Interest on term debt	524	656
Other interest expense	7	68
<b>Total finance costs</b>	<b>1,401</b>	<b>1,742</b>
Interest revenue on bank deposits	(439)	(433)
<b>Net finance costs</b>	<b>962</b>	<b>1,309</b>
<b>Depreciation and amortisation</b>		
Depreciation of plant and equipment	10,441	9,701
Amortisation of plant and equipment under lease	-	91
Amortisation of intangibles	803	1,217
	<b>11,244</b>	<b>11,009</b>
<b>Employment expenses</b>		
Wages and salaries	106,744	92,463
Defined contribution superannuation expense	8,848	7,509
Employee entitlements	6,945	5,097
	<b>122,537</b>	<b>105,069</b>
<b>Operating lease rental expenses</b>		
Lease payments – operating lease	20,350	19,357

## NOTES TO THE FINANCIAL STATEMENTS: FINANCIAL OVERVIEW (Continued)

### FOR THE YEAR ENDED 30 JUNE 2016

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#### 4. EXPENSES (continued)

##### *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 FINANCIAL STATEMENTS: KEY NUMBERS

### FOR THE YEAR ENDED 30 JUNE 2016

#### 5. TRADE AND OTHER RECEIVABLES

	FY16 \$'000	FY15 \$'000
Trade receivables	35,444	28,093
Allowance for doubtful debts	(5,279)	(4,321)
	<b>30,165</b>	<b>23,772</b>
Other receivables	1,171	1,705
Prepayments	2,454	3,819
	<b>33,790</b>	<b>29,296</b>

#### *Allowance for doubtful debts*

As at 30 June 2016, provisions were made against current trade receivables to the value of \$5,279,160 (FY15: \$4,320,777). An allowance for doubtful debts is made when there is objective evidence that a receivable is impaired. The amount of the allowance has been measured as the difference between the carrying amount of the receivables and the estimated future cash flows expected to be received from the relevant debtor.

The ageing of these receivables is as follows:

0 to 91 days	4,299	2,056
91+ days	980	2,265
<b>Balance at 30 June</b>	<b>5,279</b>	<b>4,321</b>
Movements in provision for doubtful debts were as follows:		
At 1 July	4,321	4,554
(Release)/charge for the year	1,012	(114)
Amounts written off	(54)	(119)
<b>Balance at 30 June</b>	<b>5,279</b>	<b>4,321</b>

As of 30 June 2016, trade receivables of \$456,748 (FY15: \$132,998) 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	88	86
91+ days	369	47
<b>Balance at 30 June</b>	<b>457</b>	<b>133</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.

#### *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.

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 6. INVENTORY

	FY16 \$'000	FY15 \$'000
Finished goods	16,222	16,225
Provision for diminution in value	(1,612)	(1,658)
<b>Total inventories at the lower of cost or net realisable value</b>	<b>14,610</b>	<b>14,567</b>

Inventories recognised as an expense for the year ended 30 June 2016 totalled \$424,850,814 (FY15: \$389,893,842). This expense has been included in the cost of sales line item as a cost of inventories.

Inventory write-downs recognised as an expense totalled \$618,165 (FY15: \$1,592,729).

#### *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 under lease \$'000	Plant and equipment \$'000	Total \$'000
<b>At 1 July 2014</b>			
Cost	3,730	55,543	59,273
Accumulated depreciation	(2,943)	(34,172)	(37,115)
<b>Net book amount</b>	<b>787</b>	<b>21,371</b>	<b>22,158</b>
<b>Year ended 30 June 2015</b>			
Opening net book amount	787	21,371	22,158
Additions	-	5,246	5,246
Acquired on acquisition	-	555	555
Transfers	(696)	696	-
Disposals	-	(77)	(77)
Depreciation charge	(91)	(10,514)	(10,605)
<b>Closing net book amount</b>	<b>-</b>	<b>17,277</b>	<b>17,277</b>
<b>At 1 July 2015</b>			
Cost	-	61,339	61,339
Accumulated depreciation	-	(44,062)	(44,062)
<b>Net book amount</b>	<b>-</b>	<b>17,277</b>	<b>17,277</b>
<b>Year ended 30 June 2016</b>			
Opening net book amount	-	17,277	17,277
Additions	-	8,088	8,088
Acquired on acquisition	-	575	575
Transfers	-	-	-
Disposals	-	(226)	(226)
Depreciation charge	-	(11,807)	(11,807)
<b>Closing net book amount</b>	<b>-</b>	<b>13,907</b>	<b>13,907</b>

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 7. PLANT AND EQUIPMENT (continued)

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

There were no additions during the year of plant and equipment financed under finance lease agreements (FY15: nil).

Additions to the lease make good asset recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* during FY16 were \$1,020,019 (FY15: \$426,162). A respective provision was 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
Plant and equipment under lease	Straight line over 3 to 5 years

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

#### **Impairment**

The carrying values of fixed assets 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the 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 FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 8. INTANGIBLE ASSETS AND GOODWILL

	Customer database \$'000	Software \$'000	Goodwill \$'000	Total \$'000
<b>At 1 July 2014</b>				
Cost	720	7,821	85,811	94,352
Accumulated amortisation	(720)	(6,007)	(41,213)	(47,940)
<b>Net book amount</b>	<b>-</b>	<b>1,814</b>	<b>44,598</b>	<b>46,412</b>
<b>Year ended 30 June 2015</b>				
Opening net book amount	-	1,814	44,598	46,412
Additions	-	306	-	306
Acquired on acquisition	-	-	9,394	9,394
Transfers	-	-	-	-
Disposals	-	(4)	-	(4)
Amortisation charge	-	(1,217)	-	(1,217)
<b>Closing net book amount</b>	<b>-</b>	<b>899</b>	<b>53,992</b>	<b>54,891</b>
<b>At 1 July 2015</b>				
Cost	-	8,095	95,205	103,300
Accumulated amortisation	-	(7,196)	(41,213)	(48,409)
<b>Net book amount</b>	<b>-</b>	<b>899</b>	<b>53,992</b>	<b>54,891</b>
<b>Year ended 30 June 2016</b>				
Opening net book amount	-	899	53,992	54,891
Additions	-	3,272	-	3,272
Acquired on acquisition	-	-	13,102	13,102
Transfers	-	-	-	-
Disposals	-	(1)	(265)	(266)
Amortisation charge	-	(810)	-	(810)
<b>Closing net book amount</b>	<b>-</b>	<b>3,360</b>	<b>66,829</b>	<b>70,189</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.

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

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

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

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.

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.

For impairment testing of goodwill refer to Note 18.

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 8. INTANGIBLE ASSETS AND GOODWILL (continued)

##### *Recognition and measurement (continued)*

##### *Other intangible assets*

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>Customer Database</b>	<b>Software</b>
Method used	Straight line over 2 years	Straight line over 2 ½ - 3 years
Impairment test / recoverable amount testing	Where an indicator of impairment exists	Where an indicator of impairment exists

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 9. BUSINESS COMBINATIONS

##### Share Acquisition

On 2 May 2016, Fone Zone Pty Ltd acquired 100% of the voting shares of Kel 2000 Pty Ltd and Kel 2010 Pty Ltd. Unlisted companies based in Australia operating as Shepparton, Shepparton Marketplace and Echuca Telstra Licenced Stores and Shepparton Telstra Business Centre.

Purchase Consideration	\$'000
Kel 2000 Pty Ltd and Kel 2010 Pty Ltd	8,436
<b>Total purchase consideration (cash)</b>	<b>8,436</b>

The assets and liabilities arising from the acquisition are as follows:

Fair Value	\$'000
Cash and cash equivalents	2,064
Inventory	992
Property, plant and equipment	341
Other assets	224
Payables	(53)
Employee benefit liabilities, including superannuation	(400)
Deferred tax liability	(23)
Tax payable	(90)
Other liabilities	(106)
<b>Net identifiable assets acquired</b>	<b>2,949</b>
Add: Goodwill	5,487
<b>Total</b>	<b>8,436</b>

##### Acquisition related costs

Acquisition-related costs of \$35,679 are included in administration expenses in the consolidated statement of comprehensive income representing legal fees incurred of acquisition.

##### 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 trailing income is estimated at nil.

##### Revenue and profit contribution\*

The acquired businesses contributed revenues of \$3,596,621 and EBITDA of \$143,531 to the Group for the period from acquisition date to 30 June 2016.

Had the businesses been acquired on 1 July 2015, the contribution to the Group revenue and EBITDA for the full year is estimated to have been \$20,724,692 and \$3,223,443 respectively.

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

Cash flow information	FY16 \$'000	FY15 \$'000
<b>Outflow of cash to acquire business, net of cash acquired</b>		
Cash consideration	8,436	-
Acquisition related costs	36	-
	<b>8,472</b>	<b>-</b>
<b>Less: Balances acquired</b>		
Cash	2,064	-
	<b>6,408</b>	<b>-</b>



## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 9. BUSINESS COMBINATIONS (continued)

#### Acquisition of Business Assets

Fone Zone Pty Ltd acquired the license and related net business assets relating to the businesses listed below:

22 July 2015	North Brisbane Telstra Business Centre
20 August 2015	Warriewood Telstra Licensed Store and Northern Beaches Telstra Business Centre
12 November 2015	Hunter Valley, Newcastle and Central Coast Telstra Business Centres

	<b>\$'000</b>
<b>Total purchase consideration (cash)</b>	<b>8,180</b>

The assets and liabilities arising from the acquisition are as follows:

	Inventories	Plant and equipment	Net identifiable assets acquired	Add: Goodwill	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Fair value</b>	<b>332</b>	<b>234</b>	<b>566</b>	<b>7,614</b>	<b>8,180</b>

#### Acquisition related costs

Acquisition-related costs of \$401,623 are included in administration 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 trailing income is estimated at nil.

#### Revenue and profit contribution\*

The acquired businesses contributed revenues of \$16,136,467 and EBITDA of \$3,002,916 to the Group for the period from acquisition date to 30 June 2016.

On the basis of trading results from the date of acquisition to end of financial year, had the businesses been acquired on 1 July 2015 contributions to the Group for revenue and EBITDA is estimated at \$20,094,607 and \$3,689,950 respectively.

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

Cash flow information	FY16 \$'000	FY15 \$'000
<b>Outflow of cash to acquire business, net of cash acquired</b>		
Cash consideration	8,180	10,578
Acquisition related costs	402	477
	<b>8,582</b>	<b>11,055</b>
<b>Less: Balances acquired</b>		
Cash	-	-
Bank overdraft	-	-
	<b>8,582</b>	<b>11,055</b>

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 10. TRADE AND OTHER PAYABLES

	FY16 \$'000	FY15 \$'000
<b>Current</b>		
Trade payables	28,252	30,558
Other payables and accruals	28,405	24,586
Unearned revenue	4,716	7,045
Annual leave accrual	5,874	5,205
	<b>67,247</b>	<b>67,394</b>
<b>Non-current</b>		
Other payables and accruals	1,147	2,001
Contingent consideration	-	724
Unearned revenue	2	45
	<b>1,149</b>	<b>2,770</b>
<b>Total</b>	<b>68,396</b>	<b>70,164</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.

#### Contingent consideration

In FY15, in respect of a previous acquisition, the Group had made contingent consideration arrangements in the event that certain pre-determined EBITDA targets are met by 30 September 2016. The fair value of the contingent consideration arrangement was estimated by applying the income approach. The inputs used have been classified as level 3 fair values due to the use of non-observable inputs.

#### 11. PROVISIONS

	FY16			FY15		
	Current \$'000	Non-Current \$'000	Total \$'000	Current \$'000	Non-Current \$'000	Total \$'000
Employee benefits	736	1,921	2,657	764	1,380	2,144
Make good provision	2,125	1,291	3,416	1,127	1,832	2,959
Onerous lease provision	1,018	-	1,018	941	420	1,361
	<b>3,879</b>	<b>3,212</b>	<b>7,091</b>	<b>2,832</b>	<b>3,632</b>	<b>6,464</b>

Movements in provisions:

	Make good provision \$'000	Onerous lease liability \$'000	Total \$'000
Opening balance	2,959	1,361	4,320
Additional provisions	1,003	3,184	4,187
Unused amounts reversed	(108)	(781)	(889)
Unwinding of discount	28	128	156
Utilised during the year	(466)	(2,874)	(3,340)
	<b>3,416</b>	<b>1,018</b>	<b>4,434</b>

## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 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 corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows. The LTIP for KMP was introduced in FY13. The Group has recognised a payable and provision based on the expected entitlement earned in FY16 but to be paid on a 1/3, 1/3, 1/3 basis over the coming three years.

##### *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.

#### 12. DEFERRED TAX ASSET

	FY16 \$'000	FY15 \$'000
Deferred income tax in the consolidated balance sheet relates to the following:		
Provisions	3,526	3,351
Inventory	526	552
Provision for employee benefits	2,390	2,073
Onerous lease provision	1,330	1,296
Unearned revenue	1,415	2,127
Share issue costs	119	119
Property, plant and equipment	397	182
<b>Net deferred tax assets</b>	<b>9,703</b>	<b>9,700</b>
Deferred tax assets expected to be recovered within 12 months	7,893	8,015
Deferred tax assets expected to be recovered after more than 12 months	1,810	1,685
	<b>9,703</b>	<b>9,700</b>



## NOTES TO THE FINANCIAL STATEMENTS: KEY NUMBERS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 12. DEFERRED TAX ASSET (continued)

	Note	FY16 \$'000	FY15 \$'000
<b>Movement in deferred tax assets</b>			
<b>At 1 July 2015</b>		9,700	11,988
Debited/(credited) to profit or loss	25	26	(2,407)
Amounts recognised directly in equity	24	-	119
Acquisition of Kel 2000 Pty Ltd & Kel 2010 Pty Ltd		(23)	-
<b>At 30 June 2016</b>		<b>9,703</b>	<b>9,700</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 the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

### FOR THE YEAR ENDED 30 JUNE 2016

#### 13. CASH AND CASH EQUIVALENTS

	FY16 \$'000	FY15 \$'000
<b>Cash at bank and on hand</b>	<b>19,419</b>	<b>15,616</b>
<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
Net profit	35,371	25,402
<i>Adjustments for:</i>		
Depreciation	11,807	10,514
Amortisation	810	1,308
Net profit/(loss) on disposal of plant and equipment	105	61
Make good provision: unwinding of discount	11	19
Onerous lease provision: unwinding of discount	128	78
Doubtful debt provision	957	(233)
Inventory obsolescence provision	(46)	848
Make good provision	(574)	(299)
Onerous lease provision	(3,671)	(936)
<i>Changes in operating assets and liabilities:</i>		
(Decrease) in trade and other receivables	(6,702)	(1,246)
Increase/(decrease) in inventory	1,326	(2,885)
Increase/(decrease) in prepayments	1,398	(2,529)
(Increase)/decrease in deferred tax assets	(26)	2,288
Increase in current tax liability	4,936	1,321
Increase in trade, other payables and accruals	1,354	13,594
(Decrease) in unearned revenue	(2,371)	(13,188)
Increase in provisions	4,284	1,068
<b>Net cash flow from operating activities</b>	<b>49,097</b>	<b>35,185</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

	FY16 \$'000	FY15 \$'000
<b>Term deposits</b>		
Current	5,025	-
Non-current	-	25
<b>Total</b>	<b>5,025</b>	<b>25</b>

Interest rates on term deposits vary from 2.40% to 2.81% (FY15: 1.50 %).

## NOTES TO THE FINANCIAL STATEMENTS: CASH MANAGEMENT (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 15. INTEREST BEARING LOANS AND BORROWINGS

	Maturity	FY16 \$'000	FY15 \$'000
<b>Current</b>			
Obligations under hire purchase contracts	2017	-	62
Short term debt	2017	11,536	7,738
		<b>11,536</b>	<b>7,800</b>
<b>Non-current</b>			
Non-current term debt	2018 - 2019	4,249	5,594
		<b>4,249</b>	<b>5,594</b>
<b>Total</b>		<b>15,785</b>	<b>13,394</b>

##### *Hire purchase contract*

The hire purchase contracts are secured by a charge over the specific assets being financed. The value of assets under hire purchase contracts is nil (FY15: \$36,026).

##### *Short term debt and non-current term debt*

The interest rate and facility fee charged on the term debt at 30 June 2016 was between 2.85% and 5.30% (FY15: 3.09% 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 3.09% (FY15: 3.09% to 4.59%) depending on the type of borrowing.

	Carrying amount		Fair value	
	FY16 \$'000	FY15 \$'000	FY16 \$'000	FY15 \$'000
Obligations under hire purchase contracts	-	62	-	59
Term debt	15,785	13,332	15,233	12,763
	<b>15,785</b>	<b>13,394</b>	<b>15,233</b>	<b>12,822</b>

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 \$13.5 million (FY15: \$13.7 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 (FY15: \$3.0 million).



## NOTES TO THE FINANCIAL STATEMENTS: CASH MANAGEMENT (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 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.

#### 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.

	FY16 \$'000	FY15 \$'000
Final dividend for FY15 of 3.86 cents per share (FY14: 2.73)	5,834	3,890
Special dividend for FY15 of 2.00 cents per share (FY15: 3.00)	3,023	4,277
Special dividend for FY16 of Nil cents per share (FY15: 3.00)	-	4,395
Interim dividend for FY16 of 5.76 cents per share paid (FY15: 4.12)	8,718	6,035
	<b>17,575</b>	<b>18,597</b>

## NOTES TO THE FINANCIAL STATEMENTS: CASH MANAGEMENT (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 16. DIVIDENDS PAID AND PROPOSED (continued)

##### *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 8.21 cents per share (FY15: 3.86), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividends expected to be paid in September 2016 out of retained earnings at 30 June 2016, but not recognised as a liability at year end, is \$12,449,596.

	FY16 \$'000	FY15 \$'000
	12,450	8,858

##### *Franked dividends*

The franked portions of the final dividends approved after 30 June 2016 will be franked out of existing franking credits or franking credits arising from the payment of income tax in the year ending 30 June 2017.

Franking credits available for subsequent financial years based on a tax rate of 30% (FY15: 30%):

	FY16 \$'000	FY15 \$'000
	51,385	43,737

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

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

The impact on the franking account of the dividend approved by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$5,335,541 (FY15: \$3,799,260).

## NOTES TO THE FINANCIAL STATEMENTS: RISK FOR THE YEAR ENDED 30 JUNE 2016

### 17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

#### **Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate and the Group's policy is to manage its interest cost using a mix of 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:

	FY16 \$'000	FY15 \$'000
<b>Financial Assets</b>		
Cash	19,419	15,616
Term deposits	-	25
	<b>19,419</b>	<b>15,641</b>
<b>Financial Liabilities</b>		
Term debt	12,617	5,931
Obligations under hire purchase	-	62
	<b>12,617</b>	<b>5,993</b>
<b>Net Asset/(Exposure)</b>	<b>6,802</b>	<b>9,648</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 2016, 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:

	FY16 \$'000	FY15 \$'000
Judgements of reasonably possible movements:		
+1 % (100 basis points)	48	70
- 1 % (100 basis points)	(48)	(70)

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

#### **Market risk**

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

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 2016. 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 2016.



## NOTES TO THE FINANCIAL STATEMENTS: RISK (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Market risk (continued)*

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

	1 year or less	1 - 5 years	Over 5 years	Total contractual flows	Carrying Amount
Financial Assets	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2016					
Trade and other receivables	35,444	-	-	35,444	35,444
Term deposits	5,078	-	-	5,078	5,025
	<b>40,522</b>	<b>-</b>	<b>-</b>	<b>40,522</b>	<b>40,469</b>
As at 30 June 2015					
Trade and other receivables	28,093	-	-	28,093	28,093
Term deposits	-	32	-	32	25
	<b>28,093</b>	<b>32</b>	<b>-</b>	<b>28,125</b>	<b>28,118</b>
Financial Liabilities					
As at 30 June 2016					
Trade and other payables	28,252	-	-	28,252	28,252
Borrowings	11,974	4,346	-	16,320	15,785
	<b>40,226</b>	<b>4,346</b>	<b>-</b>	<b>44,572</b>	<b>44,037</b>
As at 30 June 2015					
Trade and other payables	30,558	-	-	30,558	30,558
Borrowings	8,174	5,685	-	13,859	13,394
	<b>38,732</b>	<b>5,685</b>	<b>-</b>	<b>44,417</b>	<b>43,952</b>

##### *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.

##### *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.

## NOTES TO THE FINANCIAL STATEMENTS: RISK (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 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 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 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.

	Carrying amount of goodwill \$'000
At 1 July 2014	44,598
Additions	9,394
<b>At 30 June 2015</b>	<b>53,992</b>
At 1 July 2015	53,992
Additions	13,102
Disposals	(265)
<b>At 30 June 2016</b>	<b>66,829</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 year's 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 FY16'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:

	FY16	FY15
Revenue	3.7%	4.9%
Cost of goods sold	5.1%	4.6%
Operating expenses	3.4%	3.9%
Pre-tax weighted average cost of capital (WACC)	10.3%	11.7%
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, EBITDA growth and the long term growth rate. As a result, the Group has conducted a sensitivity analysis on the recoverable amount.

Sensitivity	Impact on cash flows \$'000	Impairment charge
2% reduction in projected revenues in all years	(65,543)	No
5% reduction in projected revenues in all years	(164,544)	No
1% increase in pre-tax WACC	(97,225)	No
3% increase in pre-tax WACC	(239,946)	No

## NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE FOR THE YEAR ENDED 30 JUNE 2016

### 19. PARENT ENTITY DISCLOSURES

	FY16 \$'000	FY15 \$'000
Result of parent entity		
Profit for the year	-	31,042
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>31,042</b>
<b>Financial position of parent entity at year-end</b>		
Current assets	28,360	39,343
Non-current assets	19,696	19,696
<b>Total assets</b>	<b>48,056</b>	<b>59,039</b>
Current liabilities	7,295	2,366
<b>Total liabilities</b>	<b>7,295</b>	<b>2,366</b>
<b>Total equity of the parent comprising of:</b>		
Share capital	35,535	34,336
Retained earnings	5,226	22,337
	<b>40,761</b>	<b>56,673</b>

During the financial year ended 30 June 2016, Vita Group Limited declared and paid fully franked dividends of \$17,575,295. Since June 30, the directors have approved an intercompany fully franked dividends of \$38,000,000 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.

	FY16 \$'000	FY15 \$'000
Guarantees held for:		
Leasing commitments	2,308	2,108
Other supplier arrangements	19,000	19,000
	<b>21,308</b>	<b>21,108</b>

There were no other contingencies as at reporting date (FY15: 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 (FY15: 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.

##### *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.



## NOTES TO THE FINANCIAL STATEMENTS: GROUP STRUCTURE (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 20. RELATED PARTY DISCLOSURES

##### **Controlled Entities**

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

Name	Country of Incorporation	Percentage of Equity Interest Held	
		FY16 %	FY15 %
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	100
SQD Global Pty Ltd	Australia	100	-
<b>Subsidiaries of Fone Zone Pty Ltd:</b>			
Fone Zone Queensland Pty Ltd*	Australia	100	100
Fone Zone New South Wales Pty Ltd*	Australia	100	100
Fone Zone Victoria Pty Ltd*	Australia	100	100
The Mobile Phone Shop Pty Ltd	Australia	100	100
Gould Holdings Pty. Ltd.*	Australia	100	100
Liquipel Pty Ltd	Australia	100	100
In Touch Communications (Aust) Pty Ltd*	Australia	100	100
Call Direct Telecommunications Pty Ltd*	Australia	100	100
One Zero Communications Pty Ltd	Australia	100	100
One Xerro TLS (Bundaberg) Pty Ltd	Australia	100	100
Geek Squad Pty Ltd	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	100
Tribal Accessories Pty Ltd	Australia	100	100
Camelon ICT Solutions Pty Ltd	Australia	100	100
Kel 2000 Pty Ltd	Australia	100	-
Kel 2010 Pty Ltd	Australia	100	-
<b>Subsidiaries of Communique Holdings Pty Ltd:</b>			
Sprout Corporation Pty Ltd	Australia	100	100
iConcierge Technology Solutions Pty Ltd*	Australia	100	100
Qibbus (Aust) Pty Ltd*	Australia	100	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	100
Next Byte Unit Trust	Australia	100	100
<b>Subsidiaries of Next Byte International Pty Ltd:</b>			
Square i International Pty Ltd*	Australia	100	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 FINANCIAL STATEMENTS: GROUP STRUCTURE (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

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#### 20. RELATED PARTY DISCLOSURES (continued)

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

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

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

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

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

###### *Closed Group Class Order Disclosures*

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

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

##### ***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 27.

## NOTES TO THE FINANCIAL STATEMENTS: UNRECOGNISED ITEMS

### FOR THE YEAR ENDED 30 JUNE 2016

#### 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:

	FY16 \$'000	FY15 \$'000
Within one year	11,244	14,890
After one year but not more than five years	14,704	14,172
More than five years	330	-
	<b>26,278</b>	<b>29,062</b>

##### *Sub-lease payments*

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases:

	FY16 \$'000	FY15 \$'000
	-	132

##### *Other loan commitments*

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

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

	FY16 \$'000	FY15 \$'000
Within one year	-	64
After one year but not more than five years	-	-
<b>Total minimum lease payments</b>	<b>-</b>	<b>64</b>
Less amounts representing finance charges	-	(2)
<b>Present value of minimum lease payments</b>	<b>-</b>	<b>62</b>

##### *Capital commitments*

There was \$6,880,552 of capital commitments as at reporting date (FY15: \$4,608,617).

##### *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.

	FY16 \$'000	FY15 \$'000
Leasing commitments	2,456	2,516
Other supplier arrangements	19,000	19,000
	<b>21,456</b>	<b>21,516</b>

## NOTES TO THE FINANCIAL STATEMENTS: UNRECOGNISED ITEMS (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

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#### 22. EVENTS AFTER BALANCE SHEET DATE

Contracts were entered into by the Group to acquire the below listed Telstra Licensed stores for total consideration of \$5,700,000:

Location	Contract Date	Settlement Date
Telstra Store National Wollongong	10/06/2016	To be confirmed
Telstra Store National Cairns	10/06/2016	6/09/2016
Telstra Store National Geelong	10/06/2016	13/09/2016

At the time the financial statements were authorised for issue, accounting for the business combinations was incomplete, as the fair values of the assets and liabilities were still being determined.

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



## NOTES TO THE FINANCIAL STATEMENTS: OTHER

### FOR THE YEAR ENDED 30 JUNE 2016

#### 23. EARNINGS PER SHARE

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

	FY16 \$'000	FY15 \$'000
<b>Net profit attributable to ordinary equity holders of the parent</b>	35,371	25,402
	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of ordinary shares for basic earnings per share	151,373	146,001
Effect of dilution: Share options	-	-
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>151,373</b>	<b>146,001</b>
Basic earnings per share (cents) from continuing operations	25.12	18.19
Basic earnings per share (cents) from discontinued operations	(1.75)	(0.79)
Basic earnings per share (cents)	23.37	17.40
Underlying earnings per share* (cents)	23.29	12.35

\* 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 of ordinary shares, adjusted for any bonus element.

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

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

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

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

	FY16 \$'000	FY15 \$'000
<b>Contributed equity</b>		
Ordinary shares		
<b>Issued and fully paid</b>	<b>25,724</b>	<b>24,526</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 FINANCIAL STATEMENTS: OTHER (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 24. CONTRIBUTED EQUITY, RETAINED EARNINGS AND RESERVES (continued)

	Number of shares	\$'000
At 1 July 2014	142,499,800	13,079
<b>Dividend reinvestment plan:</b>		
50,819 new shares issued at \$1.0404 per share	50,819	53
112,889 new shares issued at \$1.0862 per share	112,889	123
334,694 new shares issued at \$1.5852 per share	334,630	530
<b>Dividend reinvestment plan underwriting agreement:</b>		
2015 special dividend issued at \$1.0862 per share	3,824,199	4,153
2015 special dividend issued at \$1.5852 per share	4,330,099	6,864
Less: Transaction costs arising on share issues	-	(395)
Deferred tax credit recognised directly in equity	-	119
<b>At 30 June 2015</b>	<b>151,152,436</b>	<b>24,526</b>
<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>

Retained earnings	FY16	FY15
Movements in retained earnings were as follows:	\$'000	\$'000
Balance 1 July	24,466	17,661
Net profit for the year	35,371	25,402
Dividends	(17,575)	(18,597)
<b>Balance 30 June</b>	<b>42,262</b>	<b>24,466</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 FY16, dividends of \$17,575,296 were paid to shareholders (FY15: \$18,596,691).

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 2016 and 2015 were as follows:

	Note	FY16 \$'000	FY15 \$'000
Total borrowings *	15	15,785	13,394
Less: Cash and cash equivalents and short term investments		(24,444)	(15,616)
<b>Net debt</b>		<b>(8,659)</b>	<b>(2,222)</b>
Total equity		67,986	48,992
<b>Net debt plus equity</b>		<b>59,327</b>	<b>46,770</b>
<b>Net debt / (Net debt plus equity) ratio</b>		<b>(14.59%)</b>	<b>(4.75%)</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 FINANCIAL STATEMENTS: OTHER (continued)**  
FOR THE YEAR ENDED 30 JUNE 2016

**25. INCOME TAX**

	Note	FY16 \$'000	FY15 \$'000
The major components of income tax expense are:			
Current income tax:			
Current income tax charge		15,176	8,831
Adjustments for current tax of prior periods		(466)	(171)
Deferred income tax:			
Relating to origination and reversal of temporary differences	12	(26)	2,407
<b>Income tax expense reported in the income statement</b>		<b>14,684</b>	<b>11,067</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>50,060</b>	<b>36,469</b>
At the Group's statutory income tax rate of 30% (FY15: 30%)		15,018	10,941
Tax effect of amounts which are not deductible in calculating taxable income:			
Other		(117)	39
<b>Accounting expenses not deductible for income tax purposes</b>		<b>(117)</b>	<b>39</b>
		<b>14,901</b>	<b>10,980</b>
Adjustments for current tax of prior periods		(466)	(171)
Adjustment for deferred tax of prior periods		249	139
<b>Aggregate income tax expense</b>		<b>14,684</b>	<b>10,948</b>
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit and loss or comprehensive income but directly debited or credited to equity			
Transaction costs on dividend reinvestments		-	119
		-	<b>119</b>

**26. 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 (FY15: PricewaterhouseCoopers).

	FY16 \$	FY15 \$
Amounts received or due and receivable by Grant Thornton (FY15: PricewaterhouseCoopers) for:		
• an audit or review of the financial report of the entity and any other entity in the consolidated Group	150,000	270,000
• other services in relation to the entity and any other entity in the consolidated Group:		
a. tax compliance and consulting services	71,698	39,760
b. other assurance services	-	17,471
<b>Total auditor remuneration</b>	<b>221,698</b>	<b>327,231</b>

## NOTES TO THE FINANCIAL STATEMENTS: OTHER (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 27. DIRECTOR AND EXECUTIVE DISCLOSURES

##### *Details of Key Management Personnel*

(i) Directors	
Dick Simpson	Chairman (Independent Non-Executive chairman)
Maxine Horne	Chief Executive Officer (CEO)
Neil Osborne	Director (Independent Non-Executive)
Robyn Watts	Director (Independent Non-Executive)
Paul Wilson	Director (Independent Non-Executive)
(ii) Executives	
Adam Taylor	Chief People Officer (Resigned: 22 May 2015)
Andrew Leyden	Chief Financial Officer
Chris Preston	Chief Marketing Officer
Kendra Hammond	Chief People Office (Appointed: 8 September 2015)
Mark Anning	Group Company Secretary and Legal Counsel
Peter 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*

	FY16 \$	FY15 \$
Short-term	4,058,931	3,209,988
Post employment	137,946	143,442
Long-term benefits	505,817	314,956
Termination benefits	-	37,759
	<b>4,702,694</b>	<b>3,706,145</b>

Detailed remuneration disclosures are provided in the Remuneration Report on pages 11 to 20.

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

During the financial year no share options were granted as equity compensation benefits (FY15: nil).

##### *Loans to Key Management Personnel*

There were no loans provided to KMP during the financial year (FY15: nil).

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

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



## NOTES TO THE FINANCIAL STATEMENTS: OTHER (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 28. SUMMARY OF OTHER ACCOUNTING POLICIES

##### *Corporate Information*

The financial report of the Group for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of directors on 31 August 2016. 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 31 August 2016. 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 2016 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. The Group is still to assess its full impact but expects the impact not to be material. The Group has not yet decided when to adopt AASB 9.

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.

## NOTES TO THE FINANCIAL STATEMENTS: OTHER (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

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#### 28. SUMMARY OF OTHER ACCOUNTING POLICIES (continued)

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

###### *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. The adoption of AASB 15 has no material effect on the financial reporting for the Group, and prior period comparatives were not required to be restated.

###### *Accounting estimates and significant items*

The Group makes estimates and assumptions concerning the future, which are used to determine the carrying value of assets. Changes in accounting estimates arise from a reassessment of the present status of and expected future benefits and obligations associated with assets and liabilities.

###### *Deferred Income*

The Group offered an Entire Service Package (ESP), which provided customers with a replacement handset of the same or similar type in the event of handset failure, for the period of time it takes to repair or replace the handset. Revenue relating to sales of ESP was deferred over the life of the product term (30 months). As announced to the market in December 2013, the ESP product has been discontinued from 1 January, 2014. The Group continued to service the obligations attached to all products sold prior to 1 January 2014 until the product term expires, which ended this financial year. A straight line method of income recognition was applied over the life of the product. At 30 June 2015, \$4.5 million of unearned ESP revenue was recognised in current liabilities, which benefited profits in FY16. At 30 June 2016 there is nil balance relating to this product.

###### *Restructuring Costs*

The Group undertook some significant restructuring activities during the year. Costs of restructuring, primarily redundancy costs were \$1.4 million in FY16 (FY15: \$0.8 million).

###### *Going Concern*

At 30 June 2016, the Group had a net profit of \$35.4 million (FY15: \$25.4 million) and the Group had current liabilities in excess of current assets at 30 June 2016 amounting to \$17.2 million (FY15: \$20.9 million). The net current liability position includes the current portion of unearned revenue of \$4.7 million (FY15: \$7.0 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 \$13.5 million (FY15: \$13.7 million) (as detailed in Note 15) and forecast net cash inflows from operating activities are sufficient to cover current liabilities of the Group (FY16 actual cash inflows from operating activities: \$49.1 million). The directors believe the Group is a going concern.

##### *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).

## NOTES TO THE FINANCIAL STATEMENTS: OTHER (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

#### 28. SUMMARY OF OTHER ACCOUNTING POLICIES (continued)

##### *Basis of consolidation (continued)*

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

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

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

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

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

##### *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.

##### *Critical accounting estimates and judgements*

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

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:

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

##### *Derecognition of financial instruments*

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

##### *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.

## NOTES TO THE FINANCIAL STATEMENTS: OTHER (continued)

### FOR THE YEAR ENDED 30 JUNE 2016

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#### 28. SUMMARY OF OTHER ACCOUNTING POLICIES (continued)

##### *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

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 24 to 60 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 2016 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in Note 20 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 20.

Note 28 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  
31 August 2016

## **Independent Auditor's Report To the Members of Vita Group Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Vita Group Limited (the "Company"), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

**Independence**

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

**Auditor's opinion**

In our opinion:

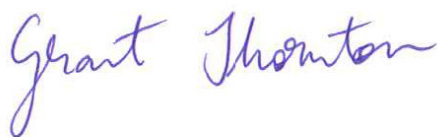
- a the financial report of Vita Group Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**

We have audited the remuneration report included in pages 11 to 20 of the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Vita Group Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



CDJ Smith  
Partner - Audit & Assurance

Brisbane, 31 August 2016

## Australian Securities Exchange (ASX) Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 19 August 2016.

### (a) Distribution of equity securities

#### (i) Ordinary Share Capital

Fully paid ordinary shares are held by individual Shareholders.

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

#### (ii) Options

Nil options are held.

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

#### Distribution of Shareholders

Size of Shareholding	Total Holders	No. of ordinary shares	Percentage
1 – 1,000	1,228	680,757	0.45
1,001 – 5,000	2,023	5,608,451	3.70
5,001 – 10,000	941	7,189,569	4.74
10,001 – 100,000	916	22,489,577	14.83
100,001 and over	75	115,671,065	76.28
	5,183	151,639,419	100.00

<b>Shareholdings of less than a marketable parcel</b>			
Holdings of less than 104 shares	67	1,046	0.01

### (b) Twenty largest holders of quoted equity securities

Ordinary Shareholders	Fully paid	
	Number	Percentage
FZIC PTY LTD	29,342,124	19.35
BNP PARIBAS NOMS PTY LTD <DRP>	10,413,549	6.87
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,877,378	6.51
CITICORP NOMINEES PTY LIMITED	9,266,895	6.11
NATIONAL NOMINEES LIMITED	6,001,689	3.96
J P MORGAN NOMINEES AUSTRALIA LIMITED	5,962,279	3.93
MCPAHON SUPERANNUATION PTY LTD <MCPAHON SUPER FUNDA/C>	5,865,540	3.87
RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	5,186,216	3.42
DATELF PTY LTD <MCPAHON SUPER FUNDA/C>	3,952,267	2.61
KAVEL PTY LTD	3,470,615	2.29
BRISPTOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	2,234,527	1.47
ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C>	1,907,045	1.26
NATIONAL NOMINEES LIMITED	1,630,980	1.08
ROBER FERGUSON + JENNIFER FERGUSON + RACHEL FERGUSON <TORRYBURN S/F A/C>	1,224,490	0.81
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,149,391	0.76
JEREMY AND LYNETTE KING SUPERANNUATION PTY LTD	1,020,000	0.67
KING EQUITY CAPITAL PTY LTD	1,000,000	0.66
MIRRABOOKA INVESTMENTS LIMITED	900,000	0.59
UBS NOMINEES PTY LTD	849,088	0.56
GERNIS HOLDINGS PTY LIMITED	750,000	0.49
<b>Top 20 holders of ORDINARY FULLY PAID SHARES</b>	<b>102,004,073</b>	<b>67.27</b>



## Australian Securities Exchange (ASX) Additional Information (continued)

### (c) Substantial Shareholders

The number of shares held by substantial Shareholders and their associates as disclosed in substantial shareholding notices given to the company as at August 2016 were:

Ordinary Shareholders	Fully paid	
	Number	Percentage
Maxine Horne	35,318,136	23.29
TOTAL	35,318,136	23.29





Vita Group Limited ABN 62 113 178 519