

Company Registration No. 01785819

VITALITY GROUP LIMITED

Report and Financial Statements

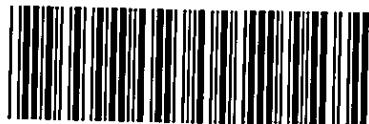
30 September 2007

05/02/2009
AC03VITA7

12

13.2.09

WEDNESDAY



AXRC27AT

A68

11/02/2009

100

COMPANIES HOUSE

VITALITY GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

Contents	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Consolidated profit and loss account	7
Consolidated balance sheet	8
Company balance sheet	9
Consolidated cash flow statement	10
Notes to the consolidated cash flow statement	11
Notes to the financial statements	12

VITALITY GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A R Deacon FCA Chairman
N Edden
G Rosen

REGISTERED OFFICE

Garman Road
Tottenham
London
N17 0QN

BANKERS

Bank of Scotland
London Chief Office
PO Box 267
38 Threadneedle Street
London
EC2P 2EH

AUDITORS

Deloitte LLP
Chartered Accountants
Cambridge

VITALITY GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2007.

PRINCIPAL ACTIVITY, TRADING REVIEW AND FUTURE DEVELOPMENTS

The principal activity of the group is trading as a wholesaler of toiletries, chemists' sundries and household products.

During the year the group successfully completed the planned closure of the warehouse in Dartford, part of its acquisition of Stephens Wholesale Limited in 2006 and the stock and operations were transferred to the group's warehouse in north London. In turnover terms the various segments of the group's business each had a satisfactory year, the exception being the expected decline in turnover coming from independent pharmacists as both their retail outlets and their toiletry business continue to go to the multiples. Turnover to other independent retailers remained satisfactory as did the group's business with other wholesalers.

Results of an internal investigation undertaken by the group discovered that there were significant errors in the management accounts which were being presented to the directors. Further work showed that these errors had also been included in the audited accounts for the past few years. A prior year adjustment has been required to correct this and more details are included in note 4 to the accounts.

The directors have taken swift action to correct these errors and these accounts, the draft accounts for 2008 and projections going forward now reflect the group's true trading position.

The result of the directors managing the business without accurate up to date management accounting information meant that gross margins and overheads were set at inappropriate levels and, in a year in which turnover grew by 4% to £50,888,235 and which should have been profitable and successful, the result was a pre-tax loss of £1,339,451.

Since the year end very substantial cuts in overheads have been made and the group has cut back operations to concentrate on its core business of supplying retailers and wholesalers with a wide range of toiletries and household goods.

Key performance indicators

The directors manage the group on key indicators including growth, profitability and cash generation. Other indicators include the acquisition of new customers and the retention of existing customers and the acquisition of new sources of supply. Overheads have increased markedly during the year but as mentioned above have been cut substantially since the year end.

Principal risks and uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks. The key business risks and uncertainties affecting the group are the loss of key staff and the loss of credit rating with key suppliers as this may impact on future margins.

Risk management statement

The main risk facing the group is the loss of key staff. However retention levels have continued to be healthy across the business. The managers of the business regularly review their exposure to key customers and are satisfied that the business has a sufficiently broad range of clients.

The group is currently in discussion with the Bank of Scotland concerning the renewal of facilities. The directors appreciate that the business is reliant upon the support of Bank of Scotland.

The Directors are aware that the current economic climate will present certain business challenges to the group and as such have aimed to reduce overheads significantly.

VITALITY GROUP LIMITED

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The group loss for the year after taxation and exceptional items was £1,355,963 (2006 - £327,029).

The directors declared and paid a dividend of £100,000 in respect of the year ended 30 September 2007 (2006 - £200,000). This has subsequently been repaid to the group.

DIRECTORS

The directors of the group who served throughout the year were:

A R Deacon (Chairman)

A J W Campbell (resigned 12 November 2008)

N Edden

G Rosen

DIRECTORS' INDEMNITIES

The group has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and remain in force at the date of this report.

DISABLED EMPLOYEES AND THE ENVIRONMENT

The group policy in respect of disabled persons is that their applications for employment are always fully and fairly considered, bearing in mind the abilities of the applicants concerned. In the event of a member of staff becoming disabled every effort is made to ensure that his/her employment with the group continues and where necessary appropriate training is arranged. Training, career development and promotion for disabled persons should, as far as possible, be identical with that for other employees in similar gradings.

The group encourages employees to recycle waste materials wherever possible, and is considering the environmental impact in its sourcing of products and other consumables.

EMPLOYEE CONSULTATION

The directors and managers of the group place considerable value on employee meetings. Information on matters affecting employees and on factors affecting the performance of the group is disseminated at such meetings. Employee involvement and contribution are encouraged throughout the group operations.

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the group's auditors are unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Approved by the Board and signed on its behalf by:



G Rosen

Director

6 February 2009

VITALITY GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and of the group, and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Vitality Group Limited for the year ended 30 September 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the notes to the consolidated cash flow statement and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the group's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the group's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report whether in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the group has not kept proper accounting records, if we have not received all the information and explanations we require for the audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited because:

- as indicated in note 1, one of the company's subsidiaries, Stephens Wholesale Limited ("Stephens") was placed into liquidation after the year end. The directors of the company have been restricted in their access to the accounting records of Stephens which support the numbers used in the consolidation, and consequently we have been unable to obtain sufficient appropriate audit evidence in respect of turnover of £2,496,349 included in the consolidated profit and loss account and the intercompany balance in the company balance sheet of £135,542 owing to Stephens. There were no other satisfactory audit procedures that we could adopt to confirm that the turnover was properly recorded. Had we been able to obtain sufficient appropriate audit evidence, group turnover and intercompany creditors may have been higher or lower; and

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY GROUP LIMITED (continued)

- the directors have prepared profit and cash flow projections to September 2010 and management account have been prepared up to October 2008. Management accounts have not been prepared from October 2008 to the date of approval of these financial statements. In the absence of adequate evidence, we have been unable to conclude as to the applicability of the going concern basis, the circumstances of which, together with the effect on the financial statements should this basis be inappropriate, are set out in note 2.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on view given by the financial statements

Because of the possible effect of the limitations in evidence available to us regarding going concern, we are unable to form an opinion as to whether the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 September 2007 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitation on our work relating to the turnover of, and intercompany balance with, Stephens Wholesale Limited and on our work relating to the appropriateness of the going concern basis:

- we have not obtained all the information and explanations that we considered necessary for the purposes of our audit; and
- solely in respect of the Stephens Wholesale Limited work, we were unable to determine whether proper accounting records have been kept.

Notwithstanding our disclaimer on the view given by the financial statements, in our opinion the information given in the Directors' Report is consistent with the financial statements.

Deeth W

Deloitte LLP

Chartered Accountants and Registered Auditors
Cambridge, United Kingdom

6 February 2009

VITALITY GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 30 September 2007

	Notes	2007 £	2006 restated (note 4) £
Turnover	3	50,888,235	48,859,065
Cost of sales		(44,729,725)	(43,451,476)
Gross profit		6,158,510	5,407,589
Operating expenses:			
exceptional	8	(940,053)	(314,861)
other		(6,223,428)	(5,140,993)
Other operating income		112,908	196,350
Operating (loss) profit	3, 9	(892,063)	148,085
Finance charges (net)	7	(447,388)	(310,843)
Loss on ordinary activities before taxation		(1,339,451)	(162,758)
Tax on loss on ordinary activities	10	(16,512)	(164,271)
Loss for the financial year	25	<u>(1,355,963)</u>	<u>(327,029)</u>

The above results all derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 30 September 2007

	2007 £	2006 £
Loss for the financial period	(1,355,963)	(327,029)
Prior year adjustment (note 4)	<u>(2,728,792)</u>	<u>-</u>
Total gains and losses recognised since last annual report and financial statements	<u>(4,084,755)</u>	<u>(327,029)</u>

VITALITY GROUP LIMITED

CONSOLIDATED BALANCE SHEET

30 September 2007

	Note	2007	2006
		£	(restated - note 4)
		£	£
Fixed assets			
Goodwill	13	1,115,439	2,249,904
Investments	14	1	1
Tangible assets	15	270,996	399,873
		<u>1,386,436</u>	<u>2,649,778</u>
Current assets			
Stocks	16	5,700,945	6,772,890
Debtors	17	6,970,486	6,946,106
Cash in hand and at bank		38,109	256,040
		<u>12,709,540</u>	<u>13,975,036</u>
Creditors: amounts falling due within one year	18	<u>(13,008,068)</u>	<u>(12,426,480)</u>
Net current (liabilities) assets		<u>(298,528)</u>	<u>1,548,556</u>
Total assets less current liabilities		<u>1,087,908</u>	<u>4,198,334</u>
Creditors: amounts falling due after more than one year	19	(426,000)	(1,891,136)
Provisions for liabilities	20	<u>(125,534)</u>	<u>(314,861)</u>
Net assets		<u>536,374</u>	<u>1,992,337</u>
Capital and reserves			
Called up share capital	24,25	1,118,294	1,118,294
Share premium account	25	999,085	999,085
Capital redemption reserve	25	392,999	392,999
Profit and loss account	25	<u>(1,974,004)</u>	<u>(518,041)</u>
Total shareholders' funds	25	<u>536,374</u>	<u>1,992,337</u>

These financial statements were approved by the Board of Directors and authorised for issue on 6 February 2009.

Signed on behalf of the Board of Directors



G Rosen

Director

VITALITY GROUP LIMITED

COMPANY BALANCE SHEET 30 September 2007

	Note	2007	2006
		£	(restated - note 4)
		£	£
Fixed assets			
Goodwill	13	1,093,926	806,110
Investments	14	1,378,040	3,546,745
Tangible assets	15	270,996	292,922
		<u>2,742,962</u>	<u>4,645,777</u>
Current assets			
Stocks	16	5,700,945	6,013,618
Debtors	17	6,922,133	5,724,391
Cash at bank and in hand		6,337	698
		<u>12,629,415</u>	<u>11,738,707</u>
Creditors: amounts falling due within one year	18	<u>(14,495,037)</u>	<u>(12,176,065)</u>
Net current liabilities		<u>(1,865,622)</u>	<u>(437,358)</u>
Total assets less current liabilities		<u>877,340</u>	<u>4,208,419</u>
Creditors: amounts falling due after more than one year	19	(426,000)	(1,875,000)
Provisions for liabilities	20	-	(314,861)
		<u>451,340</u>	<u>2,018,558</u>
Capital and reserves			
Called up share capital	24,25	1,118,294	1,118,294
Share premium account	25	999,085	999,085
Capital redemption reserve	25	392,999	392,999
Profit and loss account	25	(2,059,038)	(491,820)
Total shareholders' funds	25	<u>451,340</u>	<u>2,018,558</u>

These financial statements were approved by the Board of Directors and authorised for issue on **6 February 2009.**

Signed on behalf of the Board of Directors



G. Rosen

Director

VITALITY GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

	Note	2007 £	2006 restated (note 4) £
Net cash (outflow) inflow from operating activities	A	(773,867)	2,536,072
Returns on investments and servicing of finance			
Interest paid (net)		(447,388)	(310,843)
Taxation		(80,836)	(203,597)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(37,173)	(86,596)
Sale of tangible fixed assets		7,494	-
Net cash outflow from capital expenditure and financial investment		(29,679)	(86,596)
Acquisitions and disposals			
Payments to acquire investment in subsidiary		-	(2,006,868)
Dividends paid		(100,000)	(200,000)
Net cash outflow before financing		(1,431,770)	(271,832)
Financing			
New loans		-	1,250,000
Capital element of finance lease contracts		(5,778)	(31,892)
Net cash (outflow) inflow from financing		(5,778)	1,218,108
(Decrease) increase in cash	C	(1,437,548)	946,276

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT Year ended 30 September 2007

A. Reconciliation of operating (loss) profit to net cash (outflow) inflow from operating activities

	2007 £	2006 restated (note 4) £
Operating (loss) profit	(892,063)	148,085
Depreciation and amortisation and impairment of goodwill	1,291,322	257,782
Decrease in stocks	1,071,945	356,889
(Increase) decrease in debtors	(36,299)	1,359,052
(Decrease) increase in creditors	(2,021,144)	2,127,463
(Decrease) increase in provisions	(189,327)	314,861
Loss on sale of fixed assets	1,699	-
Prior year adjustment	-	(2,028,060)
Net cash (outflow) inflow from operating activities	<u>(773,867)</u>	<u>2,536,072</u>

B. Analysis of net debt

	At 1 October 2006 restated (note 4) £	Cash flow £	At 30 September 2007 £
Cash in hand and at bank	256,040	(217,931)	38,109
Bank overdraft	(1,478,702)	(28,952)	(1,507,654)
Invoice discounting	(3,222,606)	(1,190,665)	(4,413,271)
	<u>(4,445,268)</u>	<u>(1,437,548)</u>	<u>(5,882,816)</u>
Bank loan	(1,250,000)	-	(1,250,000)
Finance leases	(5,778)	5,778	-
Total	<u>(5,701,046)</u>	<u>(1,431,770)</u>	<u>(7,132,816)</u>

C. Reconciliation of net cash flow to movement in net debt

	2007 £	2006 restated (note 4) £
(Decrease) increase in cash in the year	(1,437,548)	946,276
Cash outflow from decrease in debt and lease financing	5,778	31,892
Bank loan	-	(1,250,000)
Change in net debt resulting from cash flows	<u>(1,431,770)</u>	<u>(271,832)</u>
Movement in net debt in the year	(1,431,770)	(271,832)
Net debt at start of year	<u>(5,701,046)</u>	<u>(5,429,214)</u>
Net debt at end of year	<u>(7,132,816)</u>	<u>(5,701,046)</u>

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

I. ACCOUNTING POLICIES

The particular accounting policies adopted by the directors, which have been applied consistently throughout the current and preceding year, are described below.

Basis of preparation

These financial statements have been prepared under the historical cost convention, on a going concern basis and in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and all its subsidiary undertakings drawn up to 30 September 2007. On 10 June 2008 a liquidator was appointed to one of the company's subsidiaries Stephens Wholesale Limited. As such the directors have been limited as to their access to the accounting records of Stephens Wholesale Limited to support the numbers used in the consolidation, and consequently we have been unable to obtain sufficient appropriate audit evidence in respect of turnover of £2,496,349 included in the consolidated profit and loss account and the intercompany balance in the company balance sheet of £135,542 owing to Stephens.

Acquisitions and disposals

On the acquisition of a business fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition. The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Goodwill

Goodwill arising on consolidation represents the differences between the fair value of consideration given and the fair value of the identifiable net assets acquired. Goodwill arising on acquisition of subsidiaries and businesses is capitalised within intangible fixed assets and is amortised over 15 years.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Turnover

Turnover represents the invoiced value of goods sold and services provided during the year, net of VAT.

Tangible fixed assets

Depreciation is charged on a monthly basis with depreciation being charged in the month of addition and the month of disposal. Depreciation on tangible fixed assets has been provided at the following rates, in order to write off the assets over their estimated useful lives:

Leasehold improvements	Over term of lease
Plant, fixtures and fittings	10 - 50% per annum
Motor vehicles	25% per annum

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that been enacted or substantively enacted by the balance sheet date. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

Retirement benefits to certain employees of the group are provided by defined contribution schemes which are funded by contributions from the group and the employees. Payments are charged against the profit and loss account in the year in which they become payable.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal quarterly amounts over the periods of the leases.

2. GOING CONCERN

The financial statements have been prepared on the going concern basis which assumes that the group will continue in operational existence for the foreseeable future.

The group is dependant on the support of its bankers in order to continue as a going concern. The directors are holding discussions with the group's bankers concerning the group's short term trading position, general prospects and the continued bank support. The outcome of these discussions may cast significant doubt on the group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have prepared management accounts for the period to 30 September 2008 which show a small profit and have prepared projected information in order to consider the period to 30 September 2010. Management accounts for the period after 31 October 2008 to the date the directors signed these accounts have not yet been prepared.

The directors consider it appropriate to prepare the financial statements on the going concern basis. However in the absence of adequate evidence and management accounts to the date of signing, and without a confirmation from the group's bank for continued support for a twelve month period, the auditors have not been able to conclude on the going concern basis of the group and a disclaimer to the audit opinion has been given in respect of this. The financial statements do not include any adjustments that would result from a withdrawal of support by the group's bankers.

3. ANALYSIS OF TURNOVER, OPERATING (LOSS) PROFIT AND NET ASSETS

All turnover, operating (loss) profit and net assets are derived from the company's and group's principal activity which originated in and is derived from the United Kingdom.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

4. PRIOR YEAR ADJUSTMENTS

Investments and goodwill were incorrectly stated in the year to 30 September 2006 following the acquisition of Stephens Wholesale Limited. A prior year adjustment has been made to reflect this change. In the company balance sheet this has resulted in goodwill being restated to £806,110 as opposed to £2,234,815. Investments have been restated as £3,546,745 as opposed to £2,118,040. In the consolidated balance sheet this has meant that goodwill has been restated to £2,249,904 as opposed to £2,234,815 and debtors have been restated to £6,446,106 as opposed to £6,461,195.

The overall effect of the above impacted only the balance sheet as at 30 September 2006 with no effect to the profit or loss account.

A further prior year adjustment relates to the restatement of results for the years ended 30 September 2002 to 30 September 2006 following the elimination of old debit balances on the purchase ledger.

The effect of the prior year adjustment has been to increase creditors by £3,228,792 and reduce reserves by £2,728,792 (after taking into account the tax effect of this adjustment).

The comparative figures in the primary statements and notes to the financial statements have been restated to reflect the adjustment made.

5. DIRECTORS' EMOLUMENTS

	2007 £	2006 £
Remuneration	395,500	386,061

One director is a member of the pension scheme (2006: one). In 2006 pension contributions made in respect of directors were £11,439 (2006: £12,392).

	2007 £	2006 £
Highest paid director		
Director's remuneration	160,000	160,000

6. EMPLOYEE INFORMATION

	2007 £	2006 £
Staff costs (group and company)		
Wages and salaries	2,697,358	2,225,177
Social security costs	272,045	224,579
Pension costs	13,223	15,895
	2,982,626	2,465,651
	No.	No.
Average number of persons employed		
Sales and distribution	88	84
Administration	9	8
	97	92

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

7. FINANCE CHARGES (NET)

	2007 £	2006 £
Interest on overdrafts and bank loans	(449,668)	(309,000)
Finance leases and hire purchase contracts	-	(1,844)
Interest received	2,280	1
	<u>(447,388)</u>	<u>(310,843)</u>

8. EXCEPTIONAL ITEMS

	2007 £	2006 £
(Decrease) increase in onerous lease provision	(189,327)	314,861
Restructuring costs	73,004	-
Impairment to fixed asset investment	108,806	-
Impairment to goodwill	947,570	-
	<u>940,053</u>	<u>314,861</u>

9. OPERATING (LOSS) PROFIT

	2007 £	2006 £
Operating (loss) profit is stated after charging		
Depreciation charge for the year		
- owned	156,857	163,123
- held under hire purchase	-	4,929
Goodwill amortisation	105,760	89,730
Auditors' remuneration (Company and Group)		
- audit fees	47,000	40,500
- other services	12,000	12,500
Rentals under operating leases - land and buildings	577,659	612,068
- other	19,978	-
	<u></u>	<u></u>

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

10. TAX ON LOSS ON ORDINARY ACTIVITIES

	2007 £	2006 restated (note 4) £
Current tax		
United Kingdom corporation tax charge at 30% (2006 - 30%) based on the result for the year	58,441	5,982
Adjustment in respect of prior years	(53,848)	168,395
	<u>4,593</u>	<u>174,377</u>
Deferred taxation		
Origination and reversal of timing differences	11,919	(10,106)
	<u>16,512</u>	<u>164,271</u>

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the UK: 30% (2006: 30%).

The differences are explained below:

	2007 £	2006 restated (note 4) £
Loss on ordinary activities before tax	(1,339,451)	(162,758)
Tax at 30% thereon:	(401,835)	(48,827)
Effects of:		
Expenses not deductible for tax purposes	344,813	35,395
Capital allowances in deficit of depreciation	12,109	10,637
Movement in short term timing differences	743	8,777
Marginal relief	(13,400)	-
Tax losses carried forward	116,011	-
Adjustment in respect of prior years	(53,848)	168,395
Current tax charge for year	<u>4,593</u>	<u>174,377</u>

In March 2007 the UK government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008. The legislation was substantially enacted in June 2007. The effective tax rate for any current tax charge for the year ended 30 September 2008 would be reduced accordingly.

11. (LOSS) PROFIT ATTRIBUTABLE TO THE COMPANY

The loss for the financial year dealt with in the financial statements of the parent company was £1,467,218 (2006 - loss of £307,320 as restated, profit of £393,412 as previously stated). As permitted by s230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the company.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

12. DIVIDENDS

	2007 £	2006 £
Interim dividend paid - 8.9p per ordinary share (2006: 17.8p)	<u>100,000</u>	<u>200,000</u>

In December 2008 the 2007 dividend was repaid to the parent company.

13. GOODWILL

Group	(restated - note 4)
Cost	£
At 1 October 2006 and 30 September 2007	<u>2,542,377</u>
Accumulated amortisation	
At 1 October 2006 (restated - note 4)	292,473
Charge for the year	105,760
Impairment during the year	<u>1,028,705</u>
At 30 September 2007	<u>1,426,938</u>
Net book value	
At 30 September 2007	<u>1,115,439</u>
At 30 September 2006 (restated - note 4)	<u>2,249,904</u>
Company	(restated - note 4)
Cost	£
At 1 October 2006	1,098,583
Additions during the year	<u>1,422,281</u>
At 30 September 2007	<u>2,520,864</u>
Accumulated amortisation	
At 1 October 2006 (restated - note 4)	292,473
Charge for the period	105,760
Impairment during the year	<u>1,028,705</u>
At 30 September 2007	<u>1,426,938</u>
Net book value	
At 30 September 2007	<u>1,093,926</u>
At 30 September 2006 (restated - note 4)	<u>806,110</u>

The company only goodwill relates to Marsam (Fancy Goods) Limited which was acquired in 2002.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT Year ended 30 September 2007

14. FIXED ASSET INVESTMENTS

Group	Other investments £		
Cost			
At 1 October 2006 and 30 September 2007			<u>1</u>
	Shares in subsidiary undertakings £	Other investments £	Total £
Cost			
At 1 October 2006 (restated - note 4)	3,546,744	1	3,546,745
Impairment	(2,168,705)	-	(2,168,705)
At 30 September 2007	<u>1,378,039</u>	<u>1</u>	<u>1,378,040</u>

All the above investments are unlisted

Subsidiary undertakings	Country of incorporation and operation	Activity	Proportion of ordinary shares held %
Marsam (Fancy Goods) Limited	UK	Non-trading	100%
Stephens Wholesale Limited	UK	Non-trading	100%

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

15. TANGIBLE FIXED ASSETS

Group	Leasehold improvements £	Plant, fixtures and fittings £	Motor vehicles £	Total £
Cost				
At 1 October 2006	454,955	758,993	114,266	1,328,214
Additions	-	27,193	9,980	37,173
Disposals	-	(190,258)	(46,409)	(236,667)
At 30 September 2007	454,955	595,928	77,837	1,128,720
Accumulated depreciation				
At 1 October 2006	327,659	523,661	77,021	928,341
Charge for the year	42,432	91,227	23,198	156,857
Disposals	-	(190,258)	(37,216)	(227,474)
At 30 September 2007	370,091	424,630	63,003	857,724
Net book value				
At 30 September 2007	84,864	171,298	14,834	270,996
At 30 September 2006	127,296	235,332	37,245	399,873

Fixed assets include items of plant, fixtures and fittings and motor vehicles with a cost of £nil (2006: £19,717) and accumulated depreciation of £nil (2006: £9,859) which are held under hire purchase or finance leases.

Company	Leasehold improvements £	Plant, fixtures and fittings £	Motor vehicles £	Total £
Cost				
At 1 October 2006	454,955	476,279	104,171	1,035,405
Additions	-	27,193	9,980	37,173
Transfer from subsidiary	-	282,714	-	282,714
Disposals	-	(190,258)	(36,314)	(226,572)
At 30 September 2007	454,955	595,928	77,837	1,128,720
Accumulated depreciation				
At 1 October 2006	327,659	344,173	70,651	742,483
Charge for the year	42,432	81,154	22,667	146,253
Transfer from subsidiary	-	189,561	-	189,561
Disposals	-	(190,258)	(30,315)	(220,573)
At 30 September 2007	370,091	424,630	63,003	857,724
Net book value				
At 30 September 2007	84,864	171,298	14,834	270,996
At 30 September 2006	127,296	132,106	33,520	292,922

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT Year ended 30 September 2007

16. STOCKS

All stocks held by the company and the group are finished goods for resale.

17. DEBTORS

	Group		Company	
	2007	2006 (restated - note 4)	2007	2006 (restated - note 4)
	£	£	£	£
Trade debtors	5,132,177	5,406,464	5,101,867	4,286,554
Other debtors	724,923	684,674	706,880	606,230
Prepayments	613,386	343,049	613,386	303,552
Corporation tax	500,000	500,000	500,000	500,000
Deferred tax asset (note 23)	-	11,919	-	28,055
	<u>6,970,486</u>	<u>6,946,106</u>	<u>6,922,133</u>	<u>5,724,391</u>

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2007	2006 (restated - note 4)	2007	2006 (restated - note 4)
	£	£	£	£
Bank overdraft and loan	2,757,654	1,478,702	2,757,654	1,478,702
Invoice discounting	4,413,271	3,222,606	4,413,271	3,222,606
Amounts due to subsidiary undertaking	-	-	1,507,069	1,441,277
Trade creditors	5,115,231	6,623,611	5,115,231	5,153,412
Obligations under finance leases and hire purchase contracts (note 22)	-	5,778	-	5,778
Corporation tax	153,620	260,962	133,520	212,345
Other taxation and social security costs	67,797	317,478	67,797	223,436
Accruals and other creditors	191,495	407,343	191,495	328,509
Deferred consideration	309,000	110,000	309,000	110,000
	<u>13,008,068</u>	<u>12,426,480</u>	<u>14,495,037</u>	<u>12,176,065</u>

The invoice discounting facility is secured on the relevant trade debtors. The bank overdraft and loan are secured against a debenture over the entire assets of the Group.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Between one and two years				
Deferred consideration	206,000	175,000	206,000	175,000
Deferred tax	-	16,136	-	-
Bank loans	-	416,667	-	416,667
Between two and five years				
Deferred consideration	220,000	450,000	220,000	450,000
Bank loans	-	833,333	-	833,333
	<u>426,000</u>	<u>1,891,136</u>	<u>426,000</u>	<u>1,875,000</u>

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Between one and two years				
Exceptional item (onerous lease)	125,534	220,861	-	220,861
Between one and two years				
Exceptional item (onerous lease)	-	94,000	-	94,000
	<u>125,534</u>	<u>314,861</u>	<u>-</u>	<u>314,861</u>

In 2006 an amount of £314,861 was charged to the group profit and loss account in respect of costs incurred in rent and rates charges for a lease property acquired with Stephens Wholesale Limited. In 2007 £189,327 of this provision has been released into the group profit and loss.

21. DEFERRED CONSIDERATION

The accrued deferred consideration is in respect of the acquisition of Stephens Wholesale Limited, is payable on the anniversary of completion for four years and is an estimate. The actual amount payable will depend on the profits of the acquired company in the four years to 28 July 2010. These amounts are shown in note 18 and note 19.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

22. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The company is committed to the following minimum payments under finance leases and hire purchase contracts

Group and Company	2007 £	2006 £
Payable within one year or less	-	6,019
Future finance charges included	-	(241)
	<u>-</u>	<u>(241)</u>
Creditors due within one year	<u>-</u>	<u>5,778</u>

Finance leases are charged over the assets to which they relate.

23. DEFERRED TAX ASSET

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
<i>Movement on deferred taxation balance in the year</i>				
Opening balance	11,919	18,262	-	18,262
Credit/(charge) to the profit and loss account	(11,919)	(6,343)	-	9,793
	<u>-</u>	<u>11,919</u>	<u>-</u>	<u>28,055</u>
<i>Analysis of deferred tax balance</i>				
Capital allowances in excess of depreciation	-	9,090	-	25,226
Short term timing differences	-	2,829	-	2,829
	<u>-</u>	<u>11,919</u>	<u>-</u>	<u>28,055</u>

Factors that may affect future tax charges

The company has capital allowance in excess of depreciation and short term timing differences of £30,215. A deferred tax asset has not been recognised in respect of these as, based on detailed budgets, the company does not anticipate taxable profits arising within the immediate future.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

24. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised:		
1,118,294 ordinary shares of £1 each	<u>1,118,294</u>	<u>1,118,294</u>
Called up, allotted and fully paid:		
1,118,294 ordinary shares of £1 each	<u>1,118,294</u>	<u>1,118,294</u>

25. COMBINED STATEMENT OF MOVEMENTS ON RESERVES AND SHAREHOLDERS' FUNDS

	Share capital £	Share- premium account £	Capital redemption reserve £	Profit and loss account £	Total 2007 £	Total 2006 £
Group						
At 1 October 2006 as previously stated	1,118,294	999,085	392,999	2,210,751	4,721,129	4,547,426
Prior year adjustment (note 4)	-	-	-	(2,728,792)	(2,728,792)	(2,028,060)
At 1 October 2006 as restated	1,118,294	999,085	392,999	(518,041)	1,992,337	2,519,366
Loss for the financial year	-	-	-	(1,355,963)	(1,355,963)	(327,029)
Dividends (note 12)	-	-	-	(100,000)	(100,000)	(200,000)
At 30 September 2007	<u>1,118,294</u>	<u>999,085</u>	<u>392,999</u>	<u>(1,974,004)</u>	<u>536,374</u>	<u>1,992,337</u>
Company						
At 1 October 2006 as previously stated	1,118,294	999,085	392,999	2,236,972	4,747,350	4,553,938
Prior year adjustment (note 4)	-	-	-	(2,728,792)	(2,728,792)	(2,028,060)
At 1 October 2006 as restated	1,118,294	999,085	392,999	(491,820)	2,018,558	2,525,878
Loss for the financial year	-	-	-	(1,467,218)	(1,467,218)	(307,320)
Dividends (note 12)	-	-	-	(100,000)	(100,000)	(200,000)
At 30 September 2007	<u>1,118,294</u>	<u>999,085</u>	<u>392,999</u>	<u>(2,059,038)</u>	<u>451,340</u>	<u>2,018,558</u>

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

26. RELATED PARTY TRANSACTIONS

During the year, a repayment of £nil (2006 - £60,112) was made by Active Participation Limited, a company of which A R Deacon is a director. The amount relates to recoverable fees previously paid to that company for directors' services. During the year there were purchases made from Stephens Wholesale Limited to Vitality Group Limited of £688,469 (2006 - £223,683) and sales and costs incurred made to Stephens Wholesale Limited from Vitality Group were £139,199 (2006 - £154,028). On 5 March 2007 the trade and assets of the subsidiary Stephens Wholesales was hived up into Vitality Group Limited. The trade and assets were transferred at a value of £93,153 (the fair value was £1,515,346) and goodwill in the company was created of £1,422,193.

There are no other related party transactions requiring disclosure under the terms of Financial Reporting Standard No.8.

27. OPERATING LEASE COMMITMENTS UNDER NON-CANCELLABLE OPERATING LEASES ARE AS FOLLOWS:

	2007	2006
	£	£
Land and buildings	Land and buildings	Land and buildings
	£	£
Group and Company		
Leases which expire:		
Less than one year	568,000	-
Within two - five years	188,000	568,000
Over five years	-	188,000

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

An onerous contract provision of £125,534 (2006 - £314,861) has been included in the balance sheet in respect of one of the above leases see note 20.

28. CONTROLLING PARTY

The company is controlled by A R Deacon, a director of the company.

VITALITY GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 September 2007

29. POST BALANCE SHEET EVENTS

On 10 June 2008 a liquidator was appointed to the subsidiary Stephens Wholesale Limited and the entity was placed into voluntary liquidation. The investment in the subsidiary has been fully impaired in the 2007 company balance sheet.

In July 2008 the group lost a contract with a material customer. This contract was significant in determining the goodwill created upon the hive up of the business and assets from the subsidiary to Vitality Group Limited. The value of the goodwill in the balance sheet at 30 September 2007 was £400,000. An impairment review will be carried out in the financial statements for the group year ended 30 September 2008.

At 30 September 2007 there was deferred consideration of £309,000 disclosed in creditors due in less than one year and £426,000 disclosed in creditors due after more than one year. This was due following the purchase of the subsidiary Stephens Wholesale Limited in 2006. £118,774 was paid shortly after the year end. The consideration was linked to the performance of the contract mentioned above and following its loss, the consideration outstanding at the date the accounts were signed was £95,785 and the remainder will be written off in the 2008 financial statements.

As stated, in note 12, in December 2008, the shareholders repaid the £100,000 dividend which was paid in the year.