



Vita Group Limited

ABN 62 113 178 519

**Interim Report
for the half-year ended 31 December 2010**

VITA GROUP LIMITED – INTERIM REPORT

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VITA GROUP LIMITED – INTERIM REPORT

Directors' Report

Your directors present their report on the consolidated entity consisting of Vita Group Limited and the entities it controlled at the end of, or during, the six month period ended 31 December 2010.

DIRECTORS

The following persons were directors of Vita Group Limited during the whole of the half-year and up to the date of this report:

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

REVIEW AND RESULTS OF OPERATIONS

	Half-year ended 31 December 2010 \$000s	Half-year ended 31 December 2009 \$000s	Growth %
Telecommunications segment	125,815	86,541	45%
Computing segment	72,705	58,342	25%
Total operating revenue (a)	198,520	144,883	37%
Gross operating margin (b)	64,693	56,454	15%
Earnings before interest, taxation, depreciation and amortisation (c)	12,012	13,462	(11%)
Earnings before interest and taxation (d)	9,365	10,681	(12%)
Net profit for the period attributable to members	6,310	7,505	(16%)
Earnings per share (cents)	4.43 cents	5.31 cents	

- (a) Total segment revenue excluding finance revenue (Note 2)
- (b) Gross Profit excluding finance revenue (Consolidated Statement of Comprehensive Income)
- (c) Profit from continuing operations before income tax excluding depreciation and amortisation expenses and finance revenue and costs (Consolidated Statement of Comprehensive Income)
- (d) Profit from continuing operations before income tax excluding finance revenue and costs (Consolidated Statement of Comprehensive Income)

Operating revenue was up 37% to \$198.5 million in the half-year.

The improvement in Operating revenue was driven by:

- strong sales growth from Vita Group's existing business
 - like for like store revenue growth of 52% in the Telecommunications division, due to more competitive pricing plans from Telstra
 - like for like revenue growth of 29% in the Next Byte retail stores, due to a broader set of products and the launch of new Apple products
- growth in the number of new T stores, with a total of 35 Telstra branded stores as at 31 December 2010 (31 December 2009: 12)

There was a reduction in the historic trailing commissions paid by Telstra as we transitioned over to the new upfront commission structure. By comparison, \$7.7 million was received in 1H11 vs \$12.0 million in 1H10. This resulted in the decline in the Group's reported earnings, with EBITDA down 11% to \$12.0 million and NPAT down 16% to \$6.3 million.

Excluding Telstra's payment of historic trailing commissions, the underlying trading EBITDA of the Group increased from \$1.5 million in 1H10 to \$4.3 million in 1H11.

VITA GROUP LIMITED – INTERIM REPORT

Directors' Report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

Telecommunications revenue was up 45% to \$125.8 million reflecting increasing revenue per store and the growth in T store numbers. The reduction in Telstra's payment of historic trailing commissions (mentioned earlier) resulted in a 9% decline in EBITDA to \$12.4 million.

During 1H11, Vita Group successfully completed the first of four phases of its roll-out of new T stores, with 25 T stores opened by November 2010. The Company is now rolling out the second phase with 25 additional T stores to be opened by November 2011. In addition, Vita Group put in place a new finance facility with ANZ to fund its complete T store roll-out.

As at 31 December 2010 Vita Group had opened a total of 27 new T stores and 5 Telstra Business Centres as well as operating 8 Telstra Licensed Stores.

Next Byte revenue was up 25% to \$72.7 million driven by the launch of new Apple products, particularly the iPad, and increased average revenue per store. From an earnings perspective Next Byte underperformed, losing \$0.4 million EBITDA mostly due to a lower performance from the Service division. Substantial restructuring of Next Byte's Service division has been undertaken in the last quarter, and positive results from these improvements are expected to flow through in future periods.

Operating cash flow remained strong at \$14.1 million. During the half, \$8 million of debt was paid down in addition to \$3.1 million of funds used to acquire 8 Telstra licensed stores and 1 Telstra Business Centre. As at 31 December 2010, Vita Group had no net debt, with \$1.3 million net cash.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of directors.



D L McMahon
Director



M J Horne
Director

Brisbane,
Date: 28 February 2011



Auditor's Independence Declaration

As lead auditor for the review of Vita Group Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

28 February 2011
Brisbane

VITA GROUP LIMITED – INTERIM REPORT

Consolidated Statement of Comprehensive Income FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Notes	Half-year 2010 \$'000	Half-year 2009 \$'000
Continuing operations			
Sale of goods		163,947	113,285
Fee income / Commission		34,573	31,598
Finance revenue	3	303	183
Revenue		198,823	145,066
Cost of sales		(133,827)	(88,429)
Gross profit		64,996	56,637
Other revenue	3	3,010	1,636
Other income	3	-	289
Employment expenses	3	(36,490)	(28,299)
Marketing and advertising expenses		(3,147)	(2,177)
Operating lease rental expenses		(8,609)	(7,471)
Depreciation and amortisation expenses	3	(2,647)	(2,781)
Other expenses	3	(7,445)	(6,970)
Finance costs	3	(589)	(476)
Profit from continuing operations before income tax		9,079	10,388
Income tax expense		(2,769)	(2,883)
Profit for the half-year		6,310	7,505
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the half-year, attributable to the ordinary equity holders of Vita Group Limited		6,310	7,505
Earnings per share for profit attributable to the ordinary equity holders of the company		Cents	Cents
- basic earnings per share		4.43	5.31
- diluted earnings per share		4.43	5.31

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

VITA GROUP LIMITED – INTERIM REPORT

Consolidated Balance Sheet

AS AT 31 DECEMBER 2010

	Notes	31 December 2010 \$'000	30 June 2010 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		11,149	12,477
Trade and other receivables		24,786	22,772
Inventories		13,597	14,543
Prepayments		2,083	1,815
Total Current Assets		51,615	51,607
Non-current Assets			
Term deposits		115	113
Deferred tax asset		6,743	5,499
Plant and equipment		19,036	13,602
Intangible assets and goodwill		55,969	54,500
Total Non-current Assets		81,863	73,714
TOTAL ASSETS		133,478	125,321
LIABILITIES			
Current Liabilities			
Trade and other payables		54,162	50,568
Interest bearing loans and borrowings		4,067	10,054
Income tax payable		3,500	2,335
Provisions		4,890	4,670
Total Current Liabilities		66,619	67,627
Non-current Liabilities			
Trade and other payables		4,606	2,782
Interest bearing loans and borrowings		5,783	4,838
Provisions		2,481	2,630
Total Non-current Liabilities		12,870	10,250
TOTAL LIABILITIES		79,489	77,877
NET ASSETS		53,989	47,444
EQUITY			
Contributed equity	5	13,079	12,844
Reserves		2,750	2,750
Retained earnings		38,160	31,850
TOTAL EQUITY		53,989	47,444

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

VITA GROUP LIMITED – INTERIM REPORT

Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Attributable to equity holders of the parent			Total equity \$'000
	Contributed Equity \$'000	Retained earnings \$'000	Employee equity benefits reserve \$'000	
	At 1 July 2009	12,844	24,183	
Profit for the half-year	-	7,505	-	7,505
Total comprehensive income for the half-year	-	7,505	-	7,505
Transactions with owners in their capacity as owners:				
At 31 December 2009	12,844	31,688	2,750	47,282
At 1 July 2010	12,844	31,850	2,750	47,444
Profit for the half-year	-	6,310	-	6,310
Total comprehensive income for the half-year	-	6,310	-	6,310
Transactions with owners in their capacity as owners:				
Shares issued for options exercised	235	-	-	235
At 31 December 2010	13,079	38,160	2,750	53,989

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

VITA GROUP LIMITED – INTERIM REPORT

Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Notes	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers		221,852	165,673
Payments to suppliers and employees		(200,267)	(147,565)
Interest received		303	183
Finance costs		(589)	(476)
Income tax (paid)/ refunded		(2,925)	851
Net GST remitted		(4,322)	(3,907)
Net cash flows from/(used in) operating activities	7	14,052	14,759
Cash flows from investing activities			
Proceeds from sale of plant and equipment		99	55
Purchase of plant and equipment		(7,282)	(2,615)
Purchase of intangibles		(248)	(135)
Payments for businesses acquired	6	(3,141)	(251)
Net cash flows from/(used in) investing activities		(10,572)	(2,946)
Cash flows from financing activities			
Proceeds on exercise of options		235	-
Proceeds from borrowings		4,231	348
Repayment of borrowings		(8,100)	(12,089)
Repayment of finance lease principal		(1,174)	(835)
Net cash flows from/(used in) financing activities		(4,808)	(12,576)
Net increase/(decrease) in cash and cash equivalents		(1,328)	(763)
Cash and cash equivalents at beginning of half-year		12,477	9,850
Cash and cash equivalents at end of half-year		11,149	9,087

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2010, which have been prepared in accordance with IFRS and any public announcements made by Vita Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, with the exception of AASB 8 Operating Segments (refer to Note 2(a)).

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Whilst the Group is in a net current liability position, there is no going concern issue as the Group has access to sufficient unused credit facilities with the Australia and New Zealand Banking Group Limited. Cash flows generated from high inventory turnover and sales velocity provide sufficient cash to meet operational needs and longer term network growth.

Seasonality of operations

Due to the seasonal nature of retail industry, higher revenues and operating profits are usually expected in the first six months of the year than in the second half of the year.

2. SEGMENT REPORTING

(a) Segment reporting

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

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

In the current financial period, Support Services costs (including Group Management, Finance, Human Resources and Information Technology) were allocated to the other two segments on a user-pays basis which measured the cost of services provided based on Head Count employed in Support Services. This has therefore changed the reportable segments and resulted in only two reportable segments for financial statement purposes (being Telecommunications and Computing). Comparatives for 2009 have been restated.

(b) Description of segments

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

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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

The segment information provided to the Joint Chief Executive Officers and the Board for the reportable segments for the half-year ended 31 December 2010 is as follows:

	Telecomm- unications \$'000	Computing \$'000	Total Operations \$'000
Half year ended 31 December 2010			
Revenue			
Sales of goods	91,993	71,954	163,947
Fee income / Commission	33,822	751	34,573
Revenue from external customers	125,815	72,705	198,520
Adjusted EBITDA	12,363	(351)	12,012
Half-year ended 31 December 2009			
Revenue			
Sales of goods	54,943	58,342	113,285
Fee income / Commission	31,598	-	31,598
Revenue from external customers	86,541	58,342	144,883
Adjusted EBITDA	13,542	(80)	13,462
Total segment assets			
31 December 2010	79,284	54,194	133,478
30 June 2010	65,206	60,115	125,321

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

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

A reconciliation of adjusted EBITDA to profit from continuing operations before income tax is provided as follows:

	2010 \$'000	2009 \$'000
Adjusted EBITDA	12,012	13,462
Interest revenue	303	183
Finance costs	(589)	(476)
Depreciation and amortisation expense	(2,647)	(2,781)
Profit from continuing operations before income tax	9,079	10,388

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

3. REVENUE AND EXPENSES

Profit from continuing operations before income tax expense for the half-year includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	2010 \$'000	2009 \$'000
(a) Finance revenue		
Bank interest	303	183
(b) Other revenue		
Cooperative marketing revenue	2,872	1,509
Other miscellaneous revenue	138	127
	3,010	1,636
(c) Other income		
Bargain purchase on business combinations	-	289
(d) Finance costs		
Bank loans	123	317
Finance charges under finance leases	400	127
Finance charges under hire purchase contracts	27	5
Other interest	39	27
	589	476
(d) Depreciation and amortisation included the income statement		
Depreciation of plant and equipment	1,251	1,947
Amortisation of plant and equipment	1,264	673
Amortisation of intangibles	132	161
	2,647	2,781
(e) Employment expense		
Salaries and other employment costs	36,490	28,299
	36,490	28,299
(f) Other expenses		
(Gain)/Loss on disposal of plant and equipment	89	(24)
Impairment of plant and equipment	298	802
Consulting	295	548
Communications	826	856
Travel	779	324
Bank fees	1,325	1,291
Other expenses	3,833	3,173
	7,445	6,970

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

4. DIVIDENDS PAID AND PROPOSED

	2010 \$'000	2009 \$'000
Ordinary shares		
Dividends provided for or paid during the half-year:		
Final dividend declared from retained profits at 30 June 2010: Nil cents (2009: Nil cents)	-	-
Approved by the board of directors on 28 February 2010 (not recognised as a liability as at 31 December 2010)		
Dividends on ordinary shares:		
Interim franked dividend for 2011: 2 cents (2010: Nil cents)	2,850	-

5. CONTRIBUTED EQUITY

	31 December 2010 \$'000	30 June 2010 \$'000
Ordinary shares		
Issued and fully paid	13,079	12,844
Movements in ordinary shares on issue		
At 1 July 2010	141,247,800	12,844
Ordinary shares issued for options exercised	1,252,000	235
At 31 December 2010	142,499,800	13,079

Terms and conditions of contributed equity

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.

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS

On 1 August 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate a Telstra Licensed Store at Gungahlin and the related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	148
Total purchase consideration	148
	Fair Value \$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventory	27
Plant and equipment	51
Receivables	68
Net deferred tax assets / (liabilities)	(20)
Net identifiable assets acquired	126
Add: Goodwill	22
	148
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	148
	148

Acquisition related costs

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

Contingent consideration

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

Acquired receivables

The fair value of trade and other receivables is \$67,922 and represents an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$67,922. The gross contractual amount for the interest in future trailing income is estimated at \$67,922, of which \$Nil is expected to be uncollectible.

*Revenue and profit contribution**

The acquired business contributed revenue of \$1,069,807 and EBITDA of \$135,301 to the group for the period from 1 August 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$1,287,991 and \$162,896 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

On 30 July 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate a Telstra Licensed Store at Orange and the related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	364
Total purchase consideration	364
	Fair Value \$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventory	40
Plant and equipment	2
Receivables	191
Net deferred tax assets / (liabilities)	(57)
Net identifiable assets acquired	176
Add: Goodwill	188
	364
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	364
	364

Acquisition related costs

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

Contingent consideration

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

Acquired receivables

The fair value of trade and other receivables is \$190,882 and represents an interest in future trailing income related to pre-acquisition activity by this store with a fair value of \$190,882. The gross contractual amount for the interest in future trailing income is estimated at \$190,882, of which \$Nil is expected to be uncollectible.

*Revenue and profit contribution**

The acquired business contributed revenue of \$1,428,202 and EBITDA of \$191,791 to the group for the period from 30 July 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$1,697,149 and \$227,907 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

On 1 October 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate two Telstra Licensed Stores and a Business Centre at Townsville and the related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
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Purchase consideration:	
Cash paid	1,914
Total purchase consideration	1,914
	<hr/>
	Fair Value
	\$'000
<hr/>	
The assets and liabilities arising from the acquisition are as follows:	
Inventory	114
Plant and equipment	1,202
Net identifiable assets acquired	1,316
Add: Goodwill	598
	<hr/>
	1,914
	<hr/>
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	1,914
	<hr/>
	1,914
	<hr/>

Acquisition related costs

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

Contingent consideration

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

*Revenue and profit contribution**

The acquired business contributed revenue of \$2,703,278 and EBITDA of \$387,986 to the group for the period from 1 October 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$5,436,263 and \$780,236 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

On 1 December 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate the Telstra Licensed store at Mt Ommaney and the related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	585
Total purchase consideration	585
	Fair Value
	\$'000
The assets and liabilities arising from the acquisition are as follows:	
Inventory	35
Plant and equipment	135
Net identifiable assets acquired	170
Add: Goodwill	415
	585
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	585
	585

Acquisition related costs

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

Contingent consideration

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

*Revenue and profit contribution**

The acquired business contributed revenue of \$248,622 and EBITDA of \$8,068 to the group for the period from 1 December 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$1,516,597 and \$49,212 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

On 1 August 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate the Telstra Licensed store at Dandenong and related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	35
Total purchase consideration	35
	Fair Value \$'000
Net identifiable assets acquired	-
Add: Goodwill	35
	35
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	35
	35

Acquisition related costs

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

Contingent consideration

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

*Revenue and profit contribution**

The acquired business contributed revenue of \$892,773 and EBITDA of \$15,252 to the group for the period from 1 August 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$1,074,852 and \$18,363 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

On 19 July 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate the Telstra Licensed store at Goulburn and related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
<hr/>	
Purchase consideration:	
Cash paid	50
Total purchase consideration	<u>50</u>
	Fair Value \$'000
Net identifiable assets acquired	-
Add: Goodwill	<u>50</u>
	<u>50</u>
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	<u>50</u>
	<u>50</u>

Acquisition related costs

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

Contingent consideration

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

*Revenue and profit contribution**

The acquired business contributed revenue of \$1,486,203 and EBITDA of \$161,671 to the group for the period from 19 July 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$1,468,188 and \$161,671 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

On 1 July 2010, Fone Zone Pty Limited (a controlled entity) acquired the right to operate the Telstra Licensed store at Shellharbour and related business assets.

The initial accounting for this acquisition has only been provisionally determined as the Group is still in the process of determining the allocation of the fair value of the intangible assets and associated deferred tax balances.

Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	45
Total purchase consideration	45
	Fair Value \$'000
Net identifiable assets acquired	-
Add: Goodwill	45
	45
Net cash outflow on acquisition is as follows:	
Net cash acquired	-
Cash paid	45
	45

Acquisition related costs

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

Contingent consideration

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

*Revenue and profit contribution**

The acquired business contributed revenue of \$1,487,751 and EBITDA of \$158,440 to the group for the period from 1 July 2010 to 31 December 2010. On the basis of trading results from the date of acquisition to the end of the period ended 31 December 2010, had the business been acquired on 1 July 2010 contributions to the Group for revenue and EBITDA is estimated at \$1,487,751 and \$158,440 respectively.

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

VITA GROUP LIMITED – INTERIM REPORT

Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

6. BUSINESS COMBINATIONS (continued)

	2010 \$'000	2009 \$'000
Cash flow information		
Outflow of cash to acquire businesses, net of cash acquired		
Cash consideration	3,141	251
Acquisition related costs (*)	1	41
	3,142	292
The assets and liabilities arising from the acquisition are as follows:		
Inventory	216	52
Plant and equipment	1,390	82
Receivables	259	544
Net deferred tax assets / (liabilities)	(77)	(138)
Net identifiable assets acquired	1,788	540
Add: Goodwill/ (Bargain purchase)	1,353	(289)
	3,141	251

(*) Acquisition related costs have been recognised as an expense.

Prior period

Details of the prior period combinations were disclosed in Note 7 of the Group's financial statements for the period ended 31 December 2009 and in Note 21 of the Group's financial statements for the year ended 30 June 2010.

7. CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows generated from operating activities for the half year ended 31 December 2010 of \$14.052 million were used to retire debt of \$8.100 million (2009: \$12.089 million) and to fund the \$3.141 million (2009: \$.251 million) acquisition of Telstra branded stores. New fitouts in 19 (2009: 5) new and existing Telstra stores were carried out in the half year and financed through bank facilities.

8. CONTINGENCIES

There are no contingent assets or liabilities as at the reporting date.

9. EVENTS OCCURRING AFTER BALANCE SHEET DATE

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

VITA GROUP LIMITED – INTERIM REPORT

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 21 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Vita Group Limited will be able to pay its debts as and when they become due and payable.

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



D L McMahon
Director



M J Horne
Director

Brisbane
Date: 28 February 2011



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Vita Group Limited, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Vita Group Limited Group (the consolidated entity). The consolidated entity comprises both Vita Group Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Vita Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Vita Group Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.


PricewaterhouseCoopers


Steven Bosiljevac
Partner

Brisbane
28 February 2011