# Vita Group Limited

**ABN 62 113 178 519**

**Interim Report**
**for the half year ended 31 December 2011**

# Contents

## Directors' Report

Your Directors submit their report for the half year ended 31 December 2011.

**DIRECTORS**

The Directors of the Company during the whole of the half year were:

Dick Simpson (Independent Chairperson)
David McMahon (Joint Chief Executive Officer)
Maxine Horne (Joint Chief Executive Officer)
Neil Osborne (Independent Non-Executive Director)
Melinda Snowden (Independent Non-Executive Director) (resigned on 22 August 2011)
Diana Ryall AM (Independent Non-Executive Director) (resigned on 31 January 2012)
Robyn Watts (Independent Non-Executive Director) (appointed on 15 November 2011)

**REVIEW AND RESULTS OF OPERATIONS**

A summary of consolidated revenues and results for the half year by significant industry segment is set out below:

| | Half year ended | | |
|---|---|---|---|
| | **2011 $'000** | **2010 $'000** | **Growth %** |
| Operating revenue | | | |
| Telecommunications segment | 143,531 | 125,815 | 14% |
| Computing segment | 59,501 | 72,705 | (18%) |
| Total operating revenue (a) | 203,032 | 198,520 | 2% |
| Gross operating margin (b) | 66,487 | 64,693 | 3% |
| Earnings before interest, taxation, depreciation and amortisation (c) | 6,925 | 12,717 | (46%) |
| Earnings before interest and taxation (d) | 2,704 | 9,772 | (72%) |
| Net profit for the period attributable to members | 930 | 6,310 | (85%) |
| Earnings per share (cents) | 0.65 | 4.43 | |

(a) Total segment revenue excluding finance revenue (Note 3)
(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 2% to $203.0 million in the half year. The improvement in operating revenue was driven by strong sales growth in the Group's telecommunications business, offset by lower computing segment revenues. The growth in telecommunications reflects the Group's continued roll out of new Telstra stores and the improvement in the performance of the portfolio as it continued to mature. Lower computing revenues were due to store closures in the prior half year, lower like for like sales which were driven by a weaker product pipeline compared to prior half year and the rationalisation of poor performing lines of business.

Reported EBITDA was down 46% to $6.9 million and reported NPAT down 85% to $0.9 million. However, the prior half year result included $7.7 million of trailing commissions from Telstra as the Group transitioned to an upfront commission structure. Excluding trailing commissions, underlying EBITDA of the Group increased from $5.0 million in 1H11 to $6.9 million in 1H12, representing a growth rate of 38%. Prior half year EBITDA has been reclassified to conform to June 2011 reporting, which classified accelerated depreciation, lease make good accretion and finance facility costs below EBITDA in line with International Financial reporting Standards (IFRS). These reclassifications improved prior half year EBITDA $0.7 million, from $12.0 million to $12.7 million.

## Directors' Report (continued)

### REVIEW AND RESULTS OF OPERATIONS (continued)

Telecommunications revenue was up 14% to $143.5 million reflecting the growth in new Telstra stores and the Group's focus on bringing those points of presence to maturity quickly. Whilst overall revenues grew, like for like revenues declined overall by 8.7% in the half year, albeit against an exceptionally strong FY11 where like for like revenues grew 40%. Adverse like for like performance was a result of softer Fone Zone like for like store revenues, down 17%. Like for like Telstra store revenues were flat, which represents an exceptional performance against a very strong comparative. The reduction in reported EBITDA from $12.7 million in 1H11 to $6.9 million in 1H12 is explained by non-recurring trailing commissions of $7.7 million received in 1H11. Excluding trailing commissions, underlying EBITDA for Telecommunications grew 35%.

Next Byte revenue was down 18% to $59.5 million driven mainly by major product launches in the prior half year, price reductions on key products within the Apple range, and a reduction in store numbers versus prior period. From an earnings perspective, Next Byte delivered a loss of $0.4 million. A number of actions were taken in the half year to rationalise poor performing parts of the business and to drive productivity improvements in retail. The full year impact of the savings made amounts to $3.8 million with benefits flowing in the second half of this fiscal year.

Operating cash flow was in line with expectation at $5.3 million. Prior half year operating cash flow of $13.7 million included the receipt of trailing commissions of $7.7 million. Investing cash outflows were $9.8 million, a little below prior half year, reflecting continued investment in new stores but with fewer acquisitions. Financing cash flows increased from ($4.8) million in the prior half year to $4.3 million, as a result of continued drawdown in facilities to fund new stores and debt repayments in the prior half year. Net debt was $13.3 million, in line with expectation and up from $7.2 million at June 2011. Gearing remained comfortable at 21% at 31 December 2011, up from 12% at 30 June 2011.

### 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, in respect of the "rounding off" of amounts in the directors' and financial reports. Amounts 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.

| | |
|---|---|
| David McMahon<br>Director | Maxine Horne<br>Director |

Brisbane
Date: 27 February 2012

# Auditor's Independence Declaration

As lead auditor for the review of Vita Group Limited for the half year ended 31 December 2011, 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 review; 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.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

27 February 2012

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# Consolidated Statement of Comprehensive Income

**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

| | Note | Half year 2011 $'000 | Half year 2010 $'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| Sale of goods | | 170,142 | 163,947 |
| Fee income / Commission | | 32,890 | 34,573 |
| **Revenue** | 6 (a) | **203,032** | **198,520** |
| Cost of sales | | (136,545) | (133,827) |
| **Gross margin** | | **66,487** | **64,693** |
| Other income | 6 (b) | 3,382 | 2,927 |
| Employment expenses | 6 (e) | (42,741) | (36,619) |
| Marketing and advertising expenses | | (3,960) | (3,239) |
| Operating lease rental expenses | 6 (f) | (8,703) | (8,428) |
| Administration expenses | | (6,051) | (5,590) |
| Other expenses | | (1,489) | (1,027) |
| **Operating EBITDA** | | 6,925 | 12,717 |
| Depreciation, amortisation and impairment charges | 6 (d) | (4,221) | (2,945) |
| Finance income | | 147 | 303 |
| Finance costs | | (1,142) | (996) |
| Finance costs – net | 6 (c) | (995) | (693) |
| Share of (loss)/ profit from investment in a joint venture | | (262) | - |
| **Profit before income tax** | | **1,447** | **9,079** |
| Income tax (expense) | | (517) | (2,769) |
| **Profit from continuing operations** | | **930** | **6,310** |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year, attributable to the ordinary equity holders of Vita Group Limited** | | **930** | **6,310** |
| Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company | | | |
| - basic (cents per share) | | 0.65 | 4.43 |
| - diluted (cents per share) | | 0.65 | 4.43 |

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

# Consolidated Balance Sheet

**AS AT 31 DECEMBER 2011**

| | Note | 31 December 2011 $'000 | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 7,666 | 7,898 | 11,149 |
| Trade and other receivables | | 25,372 | 22,144 | 26,869 |
| Inventories | | 14,414 | 12,271 | 13,597 |
| **Total Current Assets** | | **47,452** | **42,313** | **51,615** |
| **Non-current Assets** | | | | |
| Term deposits | | 121 | 118 | 115 |
| Plant and equipment | 7 | 28,817 | 24,278 | 19,036 |
| Intangible assets | 8 | 58,991 | 57,789 | 55,969 |
| Investments in joint ventures | | - | - | - |
| Deferred tax assets | | 8,594 | 7,595 | 6,743 |
| **Total Non-current Assets** | | **96,523** | **89,780** | **81,863** |
| **TOTAL ASSETS** | | **143,975** | **132,093** | **133,478** |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Trade and other payables | | 56,258 | 49,974 | 54,162 |
| Interest bearing borrowings | | 9,754 | 6,363 | 4,067 |
| Income tax liability | | 874 | 3,741 | 3,500 |
| Provisions | | 2,001 | 2,087 | 4,890 |
| **Total Current Liabilities** | | **68,887** | **62,165** | **66,619** |
| **Non-current Liabilities** | | | | |
| Trade and other payables | | 10,417 | 7,277 | 4,606 |
| Interest bearing borrowings | | 11,226 | 8,744 | 5,783 |
| Provisions | | 2,425 | 2,250 | 2,481 |
| **Total Non-current Liabilities** | | **24,068** | **18,271** | **12,870** |
| **TOTAL LIABILITIES** | | **92,955** | **80,436** | **79,489** |
| **NET ASSETS** | | **51,020** | **51,657** | **53,989** |
| **EQUITY** | | | | |
| Contributed equity | 10 | 13,079 | 13,079 | 13,079 |
| Retained earnings | | 37,941 | 35,828 | 38,160 |
| Reserves | | - | 2,750 | 2,750 |
| **TOTAL EQUITY** | | **51,020** | **51,657** | **53,989** |

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

# Consolidated Statement of Changes in Equity

**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

| | Attributable to equity holders of the parent | | | |
|---|---|---|---|---|
| | Contributed Equity | Retained earnings | Employee equity benefits reserve | Total equity |
| | $'000 | $'000 | $'000 | $'000 |
| **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** |
| **At 1 July 2011** | 13,079 | 35,828 | 2,750 | 51,657 |
| Profit for the half year | - | 930 | - | 930 |
| Total comprehensive income for the half year | - | 930 | - | **930** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Shares issued for options exercised | - | - | - | **-** |
| Dividends paid | - | (1,567) | - | **(1,567)** |
| Transfer from employee equity benefits reserve to retained earnings | - | 2,750 | (2,750) | **-** |
| **At 31 December 2011** | **13,079** | **37,941** | **-** | **51,020** |

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

# Consolidated Statement of Cash Flows

**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

| | Notes | Half year 2011 $'000 | Half year 2010 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods & services tax) | | 227,090 | 222,404 |
| Payments to suppliers and employees (inclusive of goods & services tax) | | (216,445) | (205,483) |
| Interest received | | 147 | 304 |
| Finance costs | | (1,121) | (589) |
| Income tax (paid)/ refunded | | (4,383) | (2,925) |
| **Net cash flows from/(used in) operating activities** | | **5,288** | **13,711** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of plant and equipment | | - | 99 |
| Purchase of plant and equipment | | (8,069) | (6,942) |
| Purchase of intangibles | | (454) | (247) |
| Payments for businesses acquired | 11 | (1,287) | (3,141) |
| **Net cash flows from/(used in) investing activities** | | **(9,810)** | **(10,231)** |
| **Cash flows from financing activities** | | | |
| Proceeds on exercise of options | | - | 235 |
| Proceeds from borrowings | | 8,046 | 4,231 |
| Repayment of borrowings | | (1,379) | (8,100) |
| Repayment of finance lease principal | | (810) | (1,174) |
| Dividends paid | | (1,567) | - |
| **Net cash flows from/(used in) financing activities** | | **4,290** | **(4,808)** |
| Net increase/(decrease) in cash and cash equivalents | | (232) | (1,328) |
| Cash and cash equivalents at beginning of half year | | 7,898 | 12,477 |
| **Cash and cash equivalents at end of half year** | | **7,666** | **11,149** |

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

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

## 1. BASIS OF PREPARATION OF HALF YEAR REPORT

This condensed consolidated interim financial report for the half year ended 31 December 2011 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 2011, 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.

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, this reflects the natural flow of cash in and out of the business rather than a going concern issue. The Group has access to cash balances arising from operations and unused credit facilities with the Australia and New Zealand Banking Group Limited to meet its financial obligations and to fund its investment strategy for the coming year and onwards.

## 2. 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 defers income on cash received from customers for certain telecommunications and computing activities and releases amounts to income as the Group performs its contractual service obligations to the customer. After an extensive review of its service activities and contractual obligations, the Group has revised its estimation methodology for the release of deferred customer receipts to income to better align the recognition of income with the services performed and obligations discharged. The resultant financial impact has been a one-off increase in sales revenue of $0.9million in the half-year to 31 December 2011.

*Replacement Handset Stock*
The Group offers an Extended Warranty Product (ESP), which provides 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 warranties is deferred over the life of the warranty (30 months) while the cost of the replacement handset was historically charged immediately against profit on acquisition. At December 2011, $17.3 million (1H11: $10.1 million) of unearned ESP revenue was recognised in current and non-current liabilities, which will benefit profits in future periods. To better align the cost of fulfilling obligations under the ESP product with corresponding revenues, the Group adopted a new policy to measure the value of replacement handsets by reference to the age and condition of the handset. Consequently, the Group recognised an increase in inventory of $0.8 million and an increase of $0.8 million in the income statement for the half-year ended 31 December 2011 to recognise the inventory previously expensed during the half year. The valuation of the handset assets is regularly reviewed to ensure the carrying value does not exceed the recoverable amount.

*Restructuring Costs*
The Group undertook some significant restructuring activities during the half year. Costs of restructuring, primarily redundancy costs were $0.9 million in 1H12 (1H11: $0.4 million).

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

## 3. SEGMENT REPORTING

### (a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Board.

The Telecommunications and Computing segments sell different products and have different risk profiles. The products sold in the Telecommunications segment comprise fixed line and mobile communication devices, related accessories and services as well as voice and data services. Products sold in the Computing segment comprise laptop and desktop computers, mobile devices, associated accessories and peripheral equipment as well as service and rental contracts. This segment also sells limited voice and data services.

The Group operates in Australia and thus the Board does not provide any geographical segment reporting.

The segment information for the half year ended 31 December 2011 is as follows:

| | | Half year | |
|---|---|---|---|
| | Telecomm-unications $'000 | Computing $'000 | Total Operations $'000 |
| **Half year ended 31 December 2011** | | | |
| **Revenue** | | | |
| Sales of goods | 111,168 | 58,974 | 170,142 |
| Fee income / Commission | 32,363 | 527 | 32,890 |
| **Revenue from external customers** | 143,531 | 59,501 | 203,032 |
| **EBITDA** | 7,330 | (405) | 6,925 |
| **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 |
| **EBITDA** | 13,099 | (382) | 12,717 |

The Board assesses the earnings performance of the operating segments. 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.

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

**3. SEGMENT REPORTING** (continued)

**(b) Other segment information**

*(i) Segment revenue*

The revenue from external parties is measured in a manner consistent with that in the Statement of Comprehensive Income. Revenues from external customers are derived from the sale of telecommunications and computing products and services. A summary of revenue across these product areas is shown below:

| | Half year | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| Telecommunications products | 143,531 | 125,815 |
| Computing products | 59,501 | 72,705 |
| **Total segment revenue** | **203,032** | **198,520** |

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

| | Half year | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| **Total segment revenue** | 203,032 | 198,520 |
| **Total revenue from continuing operations** (note 6 (a)) | **203,032** | **198,520** |

*(ii) EBITDA*

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

| | Half year | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| **EBITDA** | 6,925 | 12,717 |
| Interest revenue | 147 | 303 |
| Finance costs | (1,142) | (996) |
| Depreciation, amortisation and impairment charges | (4,221) | (2,945) |
| Share of loss from investment in joint venture | (262) | - |
| **Profit from continuing operations before income tax** | 1,447 | 9,079 |

# Notes to the Financial Statements

**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

**3. SEGMENT REPORTING** (continued)

**(b) Other segment information**

*(iii) Segment assets*

No reporting is currently provided to the Board with respect to total segment assets as these items are managed at a consolidated Group level only. The amounts disclosed for total segment assets are an allocation of total consolidated assets based on the operations of the segments and the physical locations of assets. Reportable segments' assets are reconciled to total assets as follows:

| | 31 December 2011 $'000 | 30 June 2011 $'000 |
|---|---|---|
| Telecommunications | 93,534 | 80,431 |
| Computing | 50,441 | 51,662 |
| **Total assets as per the Balance Sheet** | **143,975** | **132,093** |

*(iv) Segment liabilities*

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

**4. INCOME TAXES**

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the half year to 31 December 2011 is 35% (the estimated tax rate for the financial year ending 30 June 2012 is 32%).

**5. DIVIDENDS**

**Dividends declared and paid for the year ending 30 June 2011**
An interim dividend for the year ending 30 June 2011 of 2.0 cents per share or $2,849,996 was paid in April 2011 (2010: nil). In addition, a final dividend of 1.1 cents per share (2010: nil) for the year ending 30 June 2011 amounting to $1,567,497 was approved by the Board and paid in October 2011 to eligible shareholders.

**Dividends not recognised at the end of the reporting period**
An interim dividend of 0.75 cents per share (2010: 2.0 cents per share) or $1,068,749 for the year ending 30 June 2012 was approved by the Board on 27 February 2012 and is expected to be paid in April 2012. The interim dividend has not been recognised as a liability in this interim financial report but will be recognised in the year to 30 June 2012.

| | Half year | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| **Ordinary shares** | | |
| *Dividends provided for or paid during the half year:* | | |
| Final dividend declared from retained profits at 30 June 2011: 1.1 cents (2010: Nil cents) | 1,567 | - |
| *Approved by the Board on 27 February 2012:* | | |
| (not recognised as a liability as at 31 December 2011) | | |
| Interim franked dividend for 2012: 0.75 cents (2011: 2 cents) | 1,069 | - |

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

## 6. 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:

| | Half year | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| **Revenue and Expenses** | | |
| (a) Revenue | | |
| Sale of goods | 170,142 | 163,947 |
| Fee and Commission revenue | 32,890 | 34,573 |
| | 203,032 | 198,520 |
| (b) Other income | | |
| Cooperative marketing revenue | 3,165 | 2,873 |
| Other miscellaneous income | 217 | 54 |
| | 3,382 | 2,927 |
| (c) Net finance costs | | |
| Bank loans | 15 | 123 |
| Finance charges under finance leases | 250 | 400 |
| Finance charges under hire purchase contracts | 356 | 27 |
| Provisions: unwinding of discount | 22 | 48 |
| Line facility fee | 248 | 359 |
| Other interest expense | 251 | 39 |
| Total finance costs | 1,142 | 996 |
| Interest revenue on bank deposits | (147) | (303) |
| Finance income | (147) | (303) |
| Net finance costs | 995 | 693 |
| (d) Depreciation, amortisation and impairment charges | | |
| Depreciation of plant and equipment | 3,131 | 1,251 |
| Amortisation of plant and equipment under lease | 868 | 1,264 |
| Amortisation of intangibles | 222 | 132 |
| Impairment of plant and equipment | - | 298 |
| | 4,221 | 2,945 |
| (e) Employment expenses | | |
| Wages and salaries | 37,212 | 31,831 |
| Defined contribution superannuation expense | 2,924 | 2,461 |
| Employee entitlements | 2,605 | 2,327 |
| | 42,741 | 36,619 |
| (f) Operating lease rental expenses | | |
| Minimum lease payments – operating lease | 8,703 | 8,428 |

# Notes to the Financial Statements

**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

## 7. PLANT AND EQUIPMENT

| | 31 December 2011 $'000 | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|---|
| Plant and equipment under lease | 8,185 | 8,204 | 9,528 |
| Accumulated amortisation and impairment | (3,085) | (2,220) | (2,228) |
| | 5,100 | 5,984 | 7,300 |
| Plant and equipment | 48,470 | 40,710 | 45,515 |
| Accumulated depreciation and impairment | (24,753) | (22,416) | (33,779) |
| | 23,717 | 18,294 | 11,736 |
| Total plant and equipment – at cost | 56,655 | 48,914 | 55,043 |
| Accumulated amortisation, depreciation and impairment | (27,838) | (24,636) | (36,007) |
| | **28,817** | **24,278** | **19,036** |

| | Plant and equipment under lease $'000 | Plant and equipment $'000 | Total plant and equipment $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 July 2011 | 8,204 | 40,710 | 48,914 |
| Additions | - | 8,604 | 8,604 |
| Acquired on acquisition | - | 266 | 266 |
| Transfers | (19) | 19 | - |
| Disposals | - | (1,129) | (1,129) |
| At 31 December 2011 | **8,185** | **48,470** | **56,655** |
| **Accumulated Depreciation:** | | | |
| At 1 July 2011 | 2,220 | 22,416 | 24,636 |
| Charge for year | 868 | 3,131 | 3,999 |
| Transfers | (3) | 3 | - |
| Disposals | - | (797) | (797) |
| At 31 December 2011 | **3,085** | **24,753** | **27,838** |
| **Net book Value:** | | | |
| At 31 December 2011 | **5,100** | **23,717** | **28,817** |

| | Plant and equipment under lease $'000 | Plant and equipment $'000 | Total plant and equipment $'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 July 2010 | 10,279 | 36,517 | 46,796 |
| Additions | 4,350 | 2,507 | 6,857 |
| Acquired on acquisition | - | 1,390 | 1,390 |
| Transfers | (5,101) | 5,101 | - |
| Disposals | - | - | - |
| At 31 December 2010 | **9,528** | **45,515** | **55,043** |
| **Accumulated Depreciation:** | | | |
| At 1 July 2010 | 4,504 | 28,690 | 33,194 |
| Charge for year | 1,268 | 1,545 | 2,813 |
| Transfers | (3,544) | 3,544 | - |
| Disposals | - | - | - |
| At 31 December 2010 | **2,228** | **33,779** | **36,007** |
| **Net book Value:** | | | |
| At 31 December 2010 | **7,300** | **11,736** | **19,036** |

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

### 8. INTANGIBLE ASSETS AND GOODWILL

| | 31 December 2011 $'000 | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|---|
| Customer database | 720 | 720 | 720 |
| Accumulated amortisation | (720) | (720) | (720) |
| | - | - | - |
| Software | 4,464 | 4,023 | 3,803 |
| Accumulated amortisation | (3,625) | (3,417) | (3,441) |
| | **839** | **606** | **362** |
| Goodwill | 65,554 | 64,585 | 63,008 |
| Accumulated amortisation | (7,402) | (7,402) | (7,402) |
| | **58,152** | **57,183** | **55,606** |
| Customer database, software and goodwill | 70,738 | 69,328 | 67,531 |
| Accumulated amortisation | (11,747) | (11,539) | (11,563) |
| | **58,991** | **57,789** | **55,968** |

| | Customer database $'000 | Software $'000 | Goodwill $'000 | Total intangible assets and goodwill $'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 July 2011 | 720 | 4,023 | 64,585 | 69,328 |
| Additions | - | 454 | - | 454 |
| Acquired on acquisition | - | - | 969 | 969 |
| Disposal | - | (13) | - | (13) |
| At 31 December 2011 | **720** | **4,464** | **65,554** | **70,738** |
| **Accumulated** | | | | |
| At 1 July 2011 | 720 | 3,417 | 7,402 | 11,539 |
| Charge for year | - | 222 | - | 222 |
| Disposal | - | (14) | - | (14) |
| At 31 December 2011 | **720** | **3,625** | **7,402** | **11,747** |
| **Net book Value:** | | | | |
| At 31 December 2011 | **-** | **839** | **58,152** | **58,991** |

| | Customer database $'000 | Software $'000 | Goodwill $'000 | Total intangible assets and goodwill $'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 July 2010 | 720 | 3,557 | 61,655 | 65,932 |
| Additions | - | 247 | - | 247 |
| Acquired on acquisition | - | - | 1,353 | 1,353 |
| Disposal | - | (1) | - | (1) |
| At 31 December 2010 | **720** | **3,803** | **63,008** | **67,531** |
| **Accumulated Depreciation:** | | | | |
| At 1 July 2010 | 720 | 3,310 | 7,402 | 11,432 |
| Charge for year | - | 132 | - | 132 |
| Disposal | - | (1) | - | (1) |
| At 31 December 2010 | **720** | **3,441** | **7,402** | **11,563** |
| **Net book Value:** | | | | |
| At 31 December 2010 | **-** | **362** | **55,606** | **55,968** |

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

### 9. IMPAIRMENT TESTING OF GOODWILL

**a) Impairment tests for goodwill**

Goodwill is allocated to the Group's cash-generating units, defined as the Telecommunications and Computing business segments being the lowest levels at which cash flows can be independently ascertained for the purposes of discounting future cash flows.

| | 31 December 2011 $'000 | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|---|
| Telecommunications | 24,341 | 23,372 | 21,797 |
| Computing | 33,811 | 33,811 | 33,811 |
| | 58,152 | 57,183 | 55,608 |

**b) Key assumptions used for value-in-use calculations**

The recoverable amount of the cash generating units has been determined based on value-in-use calculations. These calculations use financial budgets established for the next financial year and management cash flow projections for subsequent years based on past experience and expectations for the future. Cash flows beyond the five-year period are extrapolated using a 3% growth rate, which does not exceed the long-term average growth rate for the Computing and Telecommunications businesses. For both cash generating units, recoverable amount exceeds the asset carrying value.

**c) Sensitivity to changes in assumptions**

Management recognises that the calculation of recoverable amount can vary based on the assumptions used to project or discount cash flows.

In relation to the Telecommunications segment, the recoverable amount is well in excess of the carrying amount and management believe that any reasonably possible changes in assumptions would not result in impairment.

With regard to Computing, the recoverable amount is sensitive to changes in earnings projections. The cash flow assumptions imply an improvement in future earnings from a modest base and if earnings were to reduce by 12% in all future years, the recoverable amount would equate to the carrying value of net assets in the segment.

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

## 10. CONTRIBUTED EQUITY

| | 31 December 2011 $'000 | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|---|
| **Ordinary shares** | | | |
| Issued and fully paid | **13,079** | **13,079** | **13,079** |

| | Number of shares | $'000 |
|---|---|---|
| **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** |
| At 1 July 2011 | 142,499,800 | 13,079 |
| Ordinary shares issued for options exercised | - | - |
| At 31 December 2011 | 142,499,800 | **13,079** |

**Terms and conditions of contributed equity**

Ordinary shares entitle their holder to 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
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

### 11. BUSINESS COMBINATIONS

Fone Zone Pty Limited acquired the license and related net business assets to operate the Telstra Licensed stores:

| | |
|---|---|
| 7 September 2011 | Forest Hill Telstra Licensed Store |
| 1 December 2011 | Ballina Telstra Licensed Store |
| 7 December 2011 | Belmont Telstra Licensed Store |

Details of net assets acquired and goodwill are as follows:

| | **Half year $'000** |
|---|---|
| Purchase consideration: | |
| Cash paid | 1,287 |
| Total purchase consideration | **1,287** |

| | **Fair Value $'000** |
|---|---|
| The assets and liabilities arising from the acquisition are as follows: | |
| Inventories | 59 |
| Plant and equipment | 266 |
| Receivables | - |
| Employee entitlement payable | (7) |
| Net deferred tax assets / (liabilities) | - |
| Net identifiable assets acquired | **318** |
| Add: Goodwill | **969** |
| | **1,287** |
| Net cash outflow on acquisition is as follows: | |
| Net cash acquired | - |
| Cash paid | 1,287 |
| | **1,287** |

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

**11. BUSINESS COMBINATIONS (continued)**

*Acquisition related costs*
Acquisition-related costs of $nil are included in administration expenses in the statement of comprehensive income.

*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 an interest in future trailing income related to pre-acquisition activity by this store with a fair value of $nil. The gross contractual amount for the interest in future trailing income is estimated at $nil, of which $nil is expected to be uncollectible.

*Revenue and profit contribution**
The acquired businesses contributed revenues of $1,177,944 and EBITDA of $224,561 to the Group for the period from acquisition date to 31 December 2011.

On the basis of trading results from the date of acquisition to end of financial year, had the businesses been acquired on 1 July 2011 contributions to the Group for revenue and EBITDA is estimated at $5,750,556 and $1,344,439 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.

| | Half Year | |
|---|---|---|
| | **2011 $'000** | **2010 $'000** |
| **Cash flow information** | | |
| Outflow of cash to acquire business, net of cash acquired | | |
| Cash consideration | 1,287 | 3,141 |
| Acquisition-related costs | - | 1 |
| | **1,287** | **3,142** |
| Less: Balances acquired | | |
| Cash | - | - |
| Bank Overdraft | - | - |
| | 1,287 | 3,142 |
| | **1,287** | **3,142** |

# Notes to the Financial Statements
**FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

## 12. CONTINGENCIES

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

## 13. EVENTS OCCURRING AFTER BALANCE SHEET DATE

Subsequent to the half year ending 31 December 2011 Diana Ryall AM resigned from her position as an Independent Non-Executive Director of the Group, effective as of 31 January 2012.

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.

## 14. RELATED PARTY DISCLOSURES

| | Ownership Interest | 31 December 2011 $'000 | 30 June 2011 $'000 | 31 December 2010 $'000 |
|---|---|---|---|---|
| **(i) Investments in joint ventures** | | | | |
| Investments of Next Byte Holdings Pty Ltd: | | | | |
| Square [i] Solutions International Limited (incorporated in United Kingdom) | 50% | **51** | **51** | **-** |
| **(ii) Loans to joint ventures** | | | | |
| Square [i] Solutions International Limited | | **299** | **-** | **-** |
| **(iii) Guarantees** | | | | |
| Next Byte Holdings Pty Ltd has given an unsecured guarantee on behalf of Square [i] Solutions International Limited for: | | | | |
| Supplier arrangements | | **931** | **-** | **-** |

# 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 2011 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 | M J Horne |
| Director | Director |

Brisbane
Date: 27 February 2012

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

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Vita Group Limited, which comprises the balance sheet as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Vita Group Limited (the consolidated entity). The consolidated entity comprises both 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 2011 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. 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.

*Independence*

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
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*T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au*

*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 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
27 February 2012