Vita Group Limited

FY17 HALF YEAR REPORT

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GROUP LIMITED

Vita Group Limited

ABN 62 113 178 519

Interim Financial Report

for the half year ended 31 December 2016

TABLE OF CONTENTS

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 report for the year ended 30 June 2016 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*.

DIRECTORS' REPORT
31 DECEMBER 2016

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Vita Group Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2016.

DIRECTORS

The following persons held office as directors of Vita Group Limited during the whole of the financial period:

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

REVIEW AND RESULTS OF OPERATIONS

In the period, the Group delivered an 8 per cent increase in revenues from continuing operations to $344.1 million and underlying earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations of $35.0 million for the six months to 31 December 2016, a 15 per cent increase on the prior year.

Growth in earnings and strong cash generation enabled the Group to continue to invest in its businesses and reward shareholders with higher dividends. With no net debt at the end of the half, Vita retains significant flexibility to invest in growth opportunities in line with its strategy.

The results reflect Vita's continued execution of its strategy to optimise its retail channel and to transform and scale its business channels, whilst exploring further opportunities for growth as it continues to evolve. The retail channel delivered another strong result whilst the Group's small-to-medium business (SMB) and enterprise channels continued their growth trajectory. Vita's accessories brand Sprout, grew in both Vita and third party distribution channels, demonstrating the Group's ability to deliver value across a range of categories.

A reconciliation of underlying EBITDA from continuing operations (excluding the non-cash benefit from proprietary warranty and swap products in FY16) to the reported profit before tax in the consolidated statement of comprehensive income is tabled below:

	Half year	
	31 December 2016 $M	31 December 2015 $M
Profit before tax from continuing operations	**29.7**	27.8
Add: net finance costs	**0.4**	0.6
Add: depreciation and amortisation	**4.9**	5.1
Less: non-cash benefit of discontinued proprietary products	**-**	(3.1)
Underlying EBITDA from continuing operations	**35.0**	**30.4**

Group revenues from continuing operations grew 8 per cent to $344.1 million, with growth across all channels.

Retail channel revenues increased 5 per cent, with growth in fee income offset by slower growth in low margin device sales. The Group continued to focus on improving the productivity of its existing store portfolio and reducing performance variability, whilst at the same time lifting average store earnings through targeted additions to the store network. Vita benefited from the acquisition of three Telstra stores during the period and closed one store. EBITDA from the retail channel grew 12 per cent with like-for-like EBITDA up 7 per cent.

The SMB channel achieved a 35 per cent increase in revenue, with growth occurring across all key product categories. The team continued to embed leadership disciplines and operating rhythms, whilst working with Telstra to evolve the strategy for this channel, with the expectation that retail points of presence and enterprise expertise will both play a more prominent role in servicing SMB customers in the future .

Enterprise channel revenues grew by 16 per cent, off the back of key account wins; with the channel building a solid customer pipeline to deliver future returns. Whilst the Group's business channels are gaining traction, there is much work to do to enable these channels to reach their potential and deliver a meaningful EBITDA contribution to the Group.

Sprout revenue increased by 28 per cent, with growth coming from both internal distribution channels and from the expansion of the third party customer base.

Gross margins rose, due to a higher relative contribution from the business channels combined with a change in product mix sold in retail. This was partly offset by slightly softer unit margins in the second quarter, and the elimination of gross margin from the now expired proprietary product, ESP, which contributed $3.1 million in H1 FY16.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Gross debt was $7.0 million at the end of the period, down $10.9 million on the same time last year with no retail stores and business centres settling in the period. Operating cash flow from continuing operations was $36.5 million for the half which was applied to the repayment of gross debt drawn for acquisitions ($8.8 million), dividend payments ($10.9 million), net of new share capital issued and capital expenditure ($6.1 million). Cash and cash equivalents were $35.1 million at the end of the period compared with $28.5 million at the end of the prior corresponding period. As a result, the Group had a net cash position of $28.1 million at period end.

The Board approved, in February, an interim dividend of 9.20 cents per share (cps), up 60% from 5.76cps in the prior corresponding period, and reiterated its intent to target a full year payout ratio of 65% of profits after tax. Record date for the interim dividend will be 10 March 2017, with payment date being 7 April 2017.

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

	Half year	
	31 December 2016	31 December 2015
Basic earnings per share (cents) from continuing operations	**14.11**	12.82
Underlying earnings per share* (cents) from continuing operations	**14.11**	11.38
Net debt/(net debt plus total equity)	**(55.26)%**	(23.37)%

** Excludes amortisation of proprietary products.*

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 3.

ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars unless otherwise stated (where rounding is applicable) under the options available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which this instrument applies.

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

Dick Simpson

Dick Simpson
Chairman

Maxine Horne
Director

Brisbane
Date: 28 February 2017

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Auditor's Independence Declaration
To The Directors of Vita Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Vita Group Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Cameron Smith

CDJ Smith
Partner - Audit & Assurance

Brisbane, 28 February 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Notes	Half year 31 December 2016 $'000	Half year 31 December 2015 $'000
Continuing operations			
Sale of goods		**241,375**	233,128
Fee and commission revenue		**102,726**	85,489
Revenue	3	**344,101**	**318,617**
Changes in inventories		**(215,794)**	(207,340)
Gross profit		**128,307**	**111,277**
Other income	3	**5,686**	5,637
Employee benefits expense	4	**(70,520)**	(58,237)
Sales and marketing		**(6,103)**	(3,941)
Rental expense relating to operating leases	4	**(10,383)**	(9,805)
Other expenses		**(11,990)**	(11,464)
		34,997	**33,467**
Depreciation and amortisation expense	4	**(4,914)**	(5,145)
		30,083	**28,322**
Finance income	4	**207**	196
Finance expenses	4	**(591)**	(765)
Profit before income tax from continuing operations		**29,699**	**27,753**
Income tax expense		**(8,279)**	(8,363)
Profit from continuing operations		**21,420**	**19,390**
Profit/(loss) from discontinued operation (net of tax)	2	**332**	(3,809)
Profit for the period		**21,752**	**15,581**
Other comprehensive income for the half year, net of tax		**-**	**-**
Total comprehensive income for the half year, attributable to the ordinary equity holders of Vita Group Limited		**21,752**	**15,581**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**14.11**	12.82
- diluted (cents per share)		**14.10**	12.82
Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**0.22**	(2.52)
- diluted (cents per share)		**0.22**	(2.52)
Earnings per share for profit attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**14.33**	10.30
- diluted (cents per share)		**14.32**	10.30

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	Notes	31 December 2016 $'000	30 June 2016 $'000	31 December 2015 $'000
ASSETS				
Current assets				
Cash and cash equivalents		**35,136**	19,419	28,511
Trade and other receivables		**27,162**	33,790	22,747
Inventories		**19,192**	14,610	20,062
Term deposits		**-**	5,025	-
Total current assets		**81,490**	**72,844**	**71,320**
Non-current assets				
Property, plant and equipment	5	**15,127**	13,907	14,537
Intangible assets and goodwill	6	**76,255**	70,189	64,127
Deferred tax assets		**6,315**	9,703	10,640
Term deposits		**-**	-	25
Total non-current assets		**97,697**	**93,799**	**89,329**
TOTAL ASSETS		**179,187**	**166,643**	**160,649**
LIABILITIES				
Current liabilities				
Trade and other payables		**82,455**	67,247	70,531
Interest bearing loans and borrowings		**6,176**	11,536	11,889
Current tax liabilities		**3,645**	7,385	4,960
Provisions		**3,473**	3,879	6,250
Total current liabilities		**95,749**	**90,047**	**93,630**
Non-current liabilities				
Trade and other payables		**1,218**	1,149	1,381
Interest bearing loans and borrowings		**833**	4,249	6,006
Provisions		**2,431**	3,212	3,592
Total non-current liabilities		**4,482**	**8,610**	**10,979**
TOTAL LIABILITIES		**100,231**	**98,657**	**104,609**
NET ASSETS		**78,956**	**67,986**	**56,040**
EQUITY				
Contributed equity	12	**27,290**	25,724	24,851
Other reserves		**102**	-	-
Retained earnings		**51,564**	42,262	31,189
TOTAL EQUITY		**78,956**	**67,986**	**56,040**

The above 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 2016

	Notes	Attributable to owners of the parent			
		Contributed equity $'000	Other reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015		**24,526**	**-**	**24,466**	**48,992**
Profit for the half year		-	-	15,581	15,581
Total comprehensive income for the half year		**-**	**-**	**15,581**	**15,581**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan net of costs		325	-	-	325
Dividends provided for or paid	8	-	-	(8,858)	(8,858)
Balance at 31 December 2015		**24,851**	**-**	**31,189**	**56,040**
Balance at 1 July 2016		**25,724**	**-**	**42,262**	**67,986**
Profit for the half year		-	-	21,752	21,752
Total comprehensive income for the half year		**-**	**-**	**21,752**	**21,752**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan net of costs		1,566	-	-	1,566
Dividends provided for or paid	8	-	-	(12,450)	(12,450)
Employee share schemes - value of employee services		-	102	-	102
		1,566	**102**	**(12,450)**	**(10,782)**
Balance at 31 December 2016		**27,290**	**102**	**51,564**	**78,956**

The above 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 2016

	Notes	Half year 31 December 2016 $'000	Half year 31 December 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**389,909**	360,866
Payments to suppliers and employees (inclusive of GST)		**(344,152)**	(323,276)
Finance expenses		**(550)**	(719)
Income tax paid		**(9,015)**	(6,262)
Interest received		**207**	196
Net cash flows from/(used in) discontinued operations		**52**	(1,156)
Net cash inflow from operating activities		**36,451**	**29,649**
Cash flows from investing activities			
Payments for property, plant and equipment		**(4,833)**	(3,041)
Payments of acquisition of intangibles		**(1,265)**	(2,273)
Payments for store acquisitions	7	**-**	(8,180)
Proceeds from sale of store		**-**	770
Proceeds from funds invested		**5,025**	-
Net cash flows from discontinued operations		**-**	2
Net cash (outflow) from investing activities		**(1,073)**	**(12,722)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**1,566**	325
Proceeds from borrowings		**135**	9,579
Repayment of borrowings		**(8,912)**	(5,078)
Dividends paid	8	**(12,450)**	(8,858)
Net cash (outflow) from financing activities		**(19,661)**	**(4,032)**
Net increase in cash and cash equivalents		**15,717**	12,895
Cash and cash equivalents at the beginning of the financial year		**19,419**	15,616
Cash and cash equivalents at end of half year		**35,136**	**28,511**

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

1 SEGMENT INFORMATION

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

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

2 DISCONTINUED OPERATIONS

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

Financial information relating to the discontinued operation for the period ending 31 December 2016, and corresponding prior period are set out below.

	Half year	
	31 December 2016 $'000	31 December 2015 $'000
Revenue	**16**	22,848
Expenses	**460**	(28,287)
Profit/(loss) before income tax	**476**	**(5,439)**
Income tax (expense)/benefit	**(144)**	1,630
Profit/(loss) from discontinued operations	**332**	**(3,809)**

Net cash flows from the discontinued operations are disclosed in the consolidated statement of cash flows.

The remaining net liabilities as at 31 December 2016 are $97,531.

3 REVENUE

	Half year	
	31 December 2016 $'000	31 December 2015 $'000
Revenue		
Sale of goods	**238,063**	233,128
Contract revenue	**3,312**	-
Fee and commission revenue	**102,726**	85,489
	344,101	**318,617**
Other income		
Cooperative advertising revenue	**5,444**	4,522
Profit on sale of store	**-**	398
Other miscellaneous income	**242**	717
	5,686	**5,637**

4 EXPENSES

	Half year	
	31 December 2016 $'000	31 December 2015 $'000
Employee benefits expenses		
Wages and salaries	**60,830**	50,665
Defined contribution superannuation expense	**5,469**	4,285
Employment entitlements	**4,221**	3,287
Total employee benefits expenses	**70,520**	**58,237**
Depreciation and amortisation		
Plant and equipment	**4,230**	4,767
Software	**684**	378
Total depreciation and amortisation	**4,914**	**5,145**
Finance costs		
Provisions: unwinding of discount	**41**	75
Finance charges under hire purchase contracts and chattel mortgages	**30**	2
Other interest expense	**381**	408
Interest on term debt	**139**	280
Finance income	**(207)**	(196)
Total finance costs	**384**	**569**
Rental expense relating to operating leases		
Rental expense relating to operating leases	**10,383**	9,805
Total rental expense relating to operating leases	**10,383**	**9,805**

5 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment $'000	Total $'000
At 1 July 2015		
Cost or fair value	61,339	61,339
Accumulated depreciation	(44,062)	(44,062)
Net book amount	**17,277**	**17,277**
Half year ended 31 December 2015		
Opening net book amount	17,277	17,277
Additions	2,910	2,910
Depreciation charge	(4,767)	(4,767)
Acquired on acquisition	234	234
Disposals	(188)	(188)
Discontinued operations	(929)	(929)
Closing net book amount	**14,537**	**14,537**
At 31 December 2015		
Cost or fair value	60,426	60,426
Accumulated depreciation	(45,889)	(45,889)
Net book amount	**14,537**	**14,537**

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Plant and equipment $'000	Total $'000
At 1 July 2016		
Cost or fair value	59,994	59,994
Accumulated depreciation	(46,087)	(46,087)
Net book amount	**13,907**	**13,907**
Half year ended 31 December 2016		
Opening net book amount	13,907	13,907
Additions	5,136	5,136
Depreciation charge	(4,230)	(4,230)
Acquired on acquisition	209	209
Disposals	5	5
Discontinued operations	100	100
Closing net book amount	**15,127**	**15,127**
At 31 December 2016		
Cost or fair value	60,601	60,601
Accumulated depreciation	(45,474)	(45,474)
Net book amount	**15,127**	**15,127**

6 INTANGIBLE ASSETS AND GOODWILL

	Goodwill $'000	Software $'000	Total $'000
At 1 July 2015			
Cost	95,205	8,095	103,300
Accumulated amortisation and impairment	(41,213)	(7,196)	(48,409)
Net book amount	**53,992**	**899**	**54,891**
Half year ended 31 December 2015			
Opening net book amount	53,992	899	54,891
Acquired on acquisition	7,614	-	7,614
Amortisation charge	-	(378)	(378)
Disposals	(265)	-	(265)
Additions	-	2,273	2,273
Discontinued operation	-	(8)	(8)
Closing net book amount	**61,341**	**2,786**	**64,127**
At 31 December 2015			
Cost	102,554	7,917	110,471
Accumulated amortisation and impairment	(41,213)	(5,131)	(46,344)
Net book amount	**61,341**	**2,786**	**64,127**

6 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	Goodwill $'000	Software $'000	Total $'000
At 1 July 2016			
Cost	108,042	8,469	116,511
Accumulated amortisation and impairment	(41,213)	(5,109)	(46,322)
Net book amount	**66,829**	**3,360**	**70,189**
Half year 31 December 2016			
Opening net book amount	66,829	3,360	70,189
Acquired on acquisition	5,491	-	5,491
Amortisation charge	-	(684)	(684)
Disposals	-	(6)	(6)
Additions	-	1,265	1,265
Closing net book amount	**72,320**	**3,935**	**76,255**
At 31 December 2016			
Cost	113,533	9,400	122,933
Accumulated amortisation	(41,213)	(5,465)	(46,678)
Net book amount	**72,320**	**3,935**	**76,255**

7 BUSINESS COMBINATIONS

Fone Zone Pty Limited acquired the licenses and related net business assets to operate the following Telstra licensed stores:

6 September 2016	Cairns Telstra Licensed Store
12 September 2016	Wollongong Telstra Licensed Store
13 September 2016	Geelong Telstra Licensed Store

	$'000
Purchase consideration	
Cairns Telstra Licensed Store	2,100
Wollongong Telstra Licensed Store	1,600
Geelong Telstra Licensed Store	2,000
Total purchase consideration	**5,700**

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

	Plant and equipment $'000	Net identifiable assets acquired $'000	Add: Goodwill $'000	Total identifiable assets acquired $'000
Fair value				
Cairns Telstra Licensed Store	90	90	2,010	**2,100**
Wollongong Telstra Licensed Store	83	83	1,517	**1,600**
Geelong Telstra Licensed Store	36	36	1,964	**2,000**
Total	**209**	**209**	**5,491**	**5,700**

Acquisition-related costs
$284,765 in acquisition-related costs, representing stamp duty payable on the transfer of the business, were included in other expenses in FY16.

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

7 BUSINESS COMBINATIONS (CONTINUED)

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

*Revenue and profit contribution**
The acquired businesses contributed revenues of $8,663,447 and EBITDA of $1,295,780 to the Group for the period from acquisition date to 31 December 2016.

On the basis of trading results from the date of acquisition to the end of the reporting period, had the businesses been acquired on 1 July 2016, the contribution to the Group for revenue and EBITDA for the half year is estimated at $14,205,365 and $2,131,900 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	
	31 December 2016 $'000	31 December 2015 $'000
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	-	8,180
	-	**8,180**

As settlement had not occurred as at 31 December 2016, a provisional liability has been recorded for the settlement amounts owing. Settlement occurred on 16 February 2017.

8 DIVIDENDS

	Half year	
	31 December 2016 $'000	31 December 2015 $'000
Dividends provided for or paid during the the half year:		
Final dividend for FY16 8.21 cents per share (FY15: 3.86)	**12,450**	5,835
Special dividend FY16 nil cents per share (FY15: 2.00)	**-**	3,023
	12,450	**8,858**

Dividends not recognised at the end of the reporting period

In addition to the above dividends, since the end of the half year the Board have approved the payment of an interim dividend of 9.20 cents per fully paid ordinary share (2015: 5.76 cents per share), fully franked based on tax paid at 30%.

	Half year	
	31 December 2016 $'000	31 December 2015 $'000
Interim dividend FY17 9.20 cents per share (FY16: 5.76)	**13,981**	8,718
	13,981	**8,718**

9 IMPAIRMENT TESTS FOR GOODWILL

At 31 December 2016 no impairment indicators were evident and as such no impairment testing of goodwill was deemed necessary. Goodwill is tested for impairment annually, with the last testing occurring on 30 June 2016. The next test of impairment of goodwill will occur on or before 30 June 2017.

9 IMPAIRMENT TESTS FOR GOODWILL (CONTINUED)

	Carrying amount of goodwill $'000
At 1 July 2016	66,829
Additions	5,491
At 31 December 2016	**72,320**
At 1 July 2015	53,992
Additions	7,614
Disposals	(265)
At 31 December 2015	**61,341**

10 CONTINGENCIES

The Group had no contingent assets or liabilities at 31 December 2016 (2015: nil).

11 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Contracts were entered into by the Group to acquire the Telstra licensed stores listed below for a consideration of $6,000,000. There will be continued optimisation of the retail portfolio moving forward which will likely involve additions, divestments and closures.

Location	Contract Date	Settlement Date
Telstra Store National Baldivis	24/02/2017	28/03/2017
Telstra Store National Mandurah	24/02/2017	21/03/2017
Telstra Store National Narellan	24/02/2017	14/03/2017
Telstra Store National Sunshine Plaza	24/02/2017	07/03/2017
Telstra Store National Top Ryde	24/02/2017	04/04/2017

No other matter or circumstance has occurred subsequent to half year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

12 CONTRIBUTED EQUITY

	31 December 2016 $'000	30 June 2016 $'000	31 December 2015 $'000
Ordinary shares			
Ordinary shares - fully paid	**27,290**	25,724	24,851

Movements in ordinary share capital

	Number of shares	$'000
At 1 July 2015	151,152,436	24,526
197,606 new shares issued at $1.6468 per share	197,606	325
At 31 December 2015	**151,350,042**	**24,851**
At 1 July 2016	151,639,419	25,724
329,044 new shares issued at $4.7579 per share	329,044	1,566
At 31 December 2016	**151,968,463**	**27,290**

12 CONTRIBUTED EQUITY (CONTINUED)

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.

13 BASIS OF PREPARATION OF HALF-YEAR REPORT

This condensed general purpose consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and are presented in Australian Dollars (AUD), which is the functional currency of the Parent Entity.

This condensed consolidated 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 report for the year ended 30 June 2016 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*.

As disclosed in the directors' report for the year ended 30 June 2016, the Group implemented a Long Term Incentive Plan (LTIP) entitling Key Management Personnel (KMP) to performance rights to acquire ordinary Vita Group shares.

Share based compensation benefits are provided to KMP, whereby employees render services in exchange for rights over the Company's shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined internally using the Hull-White option valuation model.

The cost of these equity-settled transactions is recognised, together with any corresponding increase in equity, over the period in which the employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest. This opinion is based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The Group's net current liability position reflects the natural flow of cash in and out of the business and a focus on working capital controls. The Group has access to cash balances arising from operations and unused credit facilities of $22.3 million (31 December 2015: $9.1m) with the Australia and New Zealand Banking Group Limited to meet financial obligations and to fund its investment strategy for the coming year and onwards.

14 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2016.

In the directors' opinion:

(a) the interim financial statements and notes set out on pages 4 to 14 are in accordance with the *Corporations Act 2001*, including:
    (i) complying with Accounting Standard AASB 134 Interim Financial Reporting
    (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year on that date, and
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Dick Simpson	Maxine Horne
Chairman	Director

Brisbane
Date: 28 February 2017

Grant Thornton

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF VITA GROUP LIMITED

We have reviewed the accompanying interim financial report of Vita Group Limited (the Company), which comprises the consolidated financial statements being the consolidated balance sheet as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Interim Report

The Directors of Vita Group Limited are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the interim 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 consolidated interim financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Vita Group Limited consolidated entity's financial position as at 31 December 2016 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.

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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 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 interim 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 2016 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*.

Grant Thornton

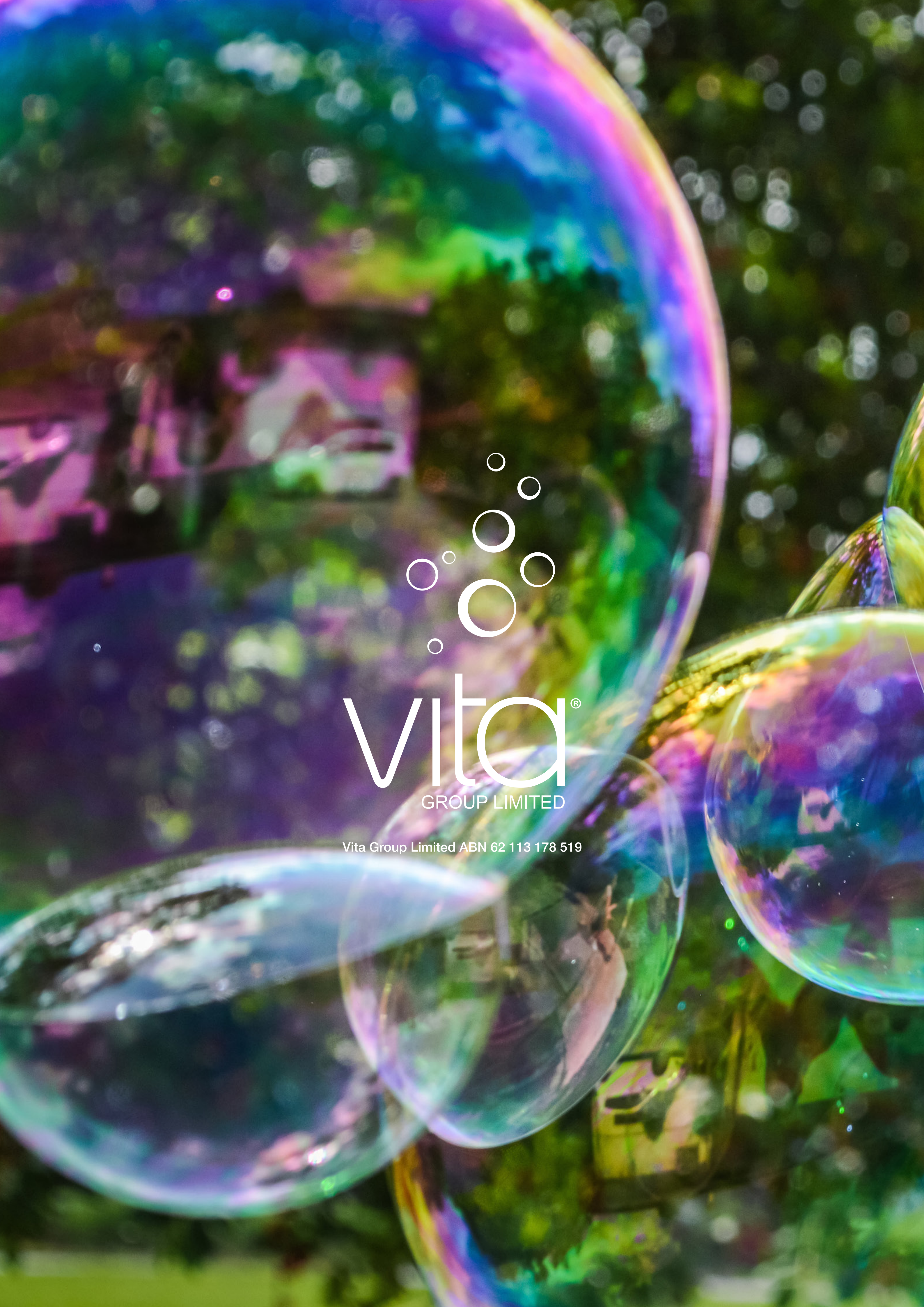
GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Cameron Smith

CDJ Smith
Partner - Audit & Assurance

Brisbane, 28 February 2017

vita®
GROUP LIMITED



Vita Group Limited ABN 62 113 178 519