Vita GROUP LIMITED

HALF YEAR REPORT FY18

vita®

GROUP LIMITED

Vita Group Limited

ABN 62 113 178 519

Interim Financial Report

for the half year ended 31 December 2017

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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 2017 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*.

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 ended 31 December 2017.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial period were:

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

REVIEW AND RESULTS OF OPERATIONS

The Group delivered revenues from continuing operations of $329.6 million, four per cent lower than prior year; earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations of $20.0 million, down 43 per cent on prior year. Net profit after tax (NPAT) was $11.2 million.

These results were well ahead of guidance provided to the market in October 2017, and in line with upgraded guidance issued in January 2018, reflecting a stronger October to December trading quarter, supported by an earlier relaxation of constraints on iPhone 8 and iPhone X inventory after launch, and the Group's rigourous focus on cost control.

Operating cash flows after tax were $18.0 million, reflecting strong cash conversion and additional investment in working capital in support of the iPhone 8 and iPhone X launches. Vita invested a net $13.2 million in acquisitions, refits and technology solutions, which will deliver benefits into the future. Financing outflows were $12.0 million, primarily reflecting $11.3 million in dividends paid in the period. The cash balance at the end of the half was $22.5 million and the Group had no net debt, positioning it strongly for ongoing investment in growth opportunities, in line with Vita's strategy.

A reconciliation of underlying EBITDA from continuing operations to the reported profit before tax in the consolidated statement of comprehensive income is tabled below:

	Half year	
	31 December 2017 $M	31 December 2016 $M
Profit before tax from continuing operations	**15.3**	29.7
Add: net finance costs	**0.4**	0.4
Add: depreciation and amortisation	**4.3**	4.9
EBITDA from continuing operations	**20.0**	**35.0**

Group revenues from continuing operations declined four per cent to $329.6 million, primarily due to remuneration reductions from Telstra in Vita’s retail information and communications technology (ICT) channel. In addition, consumer demand in the first four months of the fiscal year was softer than expected, as a result of a longer than usual period of time between the announcement and shipment of new Apple iPhone products.

These changes mainly impacted Vita’s retail channel in ICT, resulting in a four per cent decline in revenues and a 38 per cent reduction in EBITDA. Productivity and performance improvements, combined with the continued optimisation of the physical portfolio (two stores additions and two divestments) assisted and will deliver benefits in the second half.

In the business channel of ICT, revenues were down 10 per cent, with small-to-medium business sales slightly up, offset by lower enterprise sales. The reduction in enterprise sales reflected a renewed focus on account profitability, with the Group choosing to exit some lines of business that did not meet financial hurdles. As a result, EBITDA increased eight per cent in the period as the Group began to leverage its scale, whilst continuing to achieve cost savings, which will flow through fully in the second half and beyond.

Group gross margins declined due to remuneration reductions and a movement in product mix toward lower margin items such as devices and recontracted plans.

Vita continued its focus on productivity and efficiency gains, reducing total operating expenses by 11 per cent, including a 17 per cent reduction in support costs.

Importantly during the half, Vita delivered on its strategic intent to take its core competency of consultative selling into new, attractive categories. In November 2017, Vita entered the non-invasive medical aesthetics (NIMA) market, acquiring medical-grade skincare brand, Clear Complexions, which is performing well and remains on track to deliver annual revenue of around $10.0 million and annual EBITDA of more than $1.0 million in the year post acquisition. In addition, Vita’s accessories brand, Sprout, continued to grow its points of distribution, and Vita’s men’s active and lifestyle brand, SQDAthletica, continued its journey as a start-up business and is building momentum in retail, online and wholesale channels.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

Vita Group expects to deliver EBITDA in the range of $38.0 million to $43.0 million for FY18, in line with guidance provided in January 2018.

Vita has now absorbed Telstra's remuneration changes. Backed by its strengthened strategic partnership with Telstra, the Group will continue to deliver healthy returns by improving performance and further optimising its portfolio. In new categories, all brands, including Clear Complexions, are firmly embedded into the Group and Vita is well positioned, with significant financial capacity to drive strategic investment.

Vita maintained its dividend payout ratio at 65 per cent of profits after tax. The Board approved a fully franked interim dividend of 4.7 cents per share, to be paid on 13 April 2018 to shareholders on record as at 29 March 2018.

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

	Half year	
	31 December 2017	31 December 2016
Basic earnings per share (cents)	**7.32**	14.33
Underlying earnings per share* (cents) from continuing operations	**7.32**	14.11
Net debt / (Net debt plus equity)**	**(15.4%)**	(55.3%)

** Excludes amortisation of proprietary products*

*** Includes term deposits*

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 company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, issued by ASIC, relating to the 'rounding off' of amounts in the financial statements. Amounts in this report and in the financial statements have been rounded off in accordance with this Class Order to the nearest thousand dollars, unless otherwise stated.

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

Dick Simpson
Chairman

Maxine Horne
Director and Chief Executive Officer

Brisbane
Date: 28 February 2018

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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 2017. 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 Audit Pty Ltd
Chartered Accountants

Cameron Smith
Partner – Audit & Assurance

Brisbane, 28 February 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Notes	Half year 31 December 2017 $'000	Half year 31 December 2016 $'000
Continuing operations			
Sale of goods		**246,973**	238,063
Contract revenue		**2,191**	3,312
Fee and commission revenue		**80,454**	102,726
Revenue	**3**	**329,618**	**344,101**
Cost of sales		**(226,301)**	(215,794)
Gross profit		**103,317**	**128,307**
Other income	3	**5,290**	5,686
Employee benefits expense	4	**(61,121)**	(70,520)
Sales and marketing		**(4,791)**	(6,103)
Rental expense relating to operating leases	4	**(11,341)**	(10,383)
Other expenses		**(11,345)**	(11,990)
		20,009	**34,997**
Depreciation and amortisation expense	4	**(4,277)**	(4,914)
		15,732	**30,083**
Finance income	4	**152**	207
Finance expenses	4	**(572)**	(591)
Net finance costs	**4**	**(420)**	**(384)**
Profit before income tax from continuing operations		**15,312**	**29,699**
Income tax expense		**(4,090)**	(8,279)
Profit from continuing operations		**11,222**	**21,420**
Profit from discontinued operation (net of tax)	2	**-**	332
Profit for the period		**11,222**	**21,752**
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		**11,222**	**21,752**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**7.32**	14.11
- diluted (cents per share)		**7.31**	14.10
Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**-**	0.22
- diluted (cents per share)		**-**	0.22
Earnings per share for profit attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**7.32**	14.33
- diluted (cents per share)		**7.31**	14.32

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

	Notes	31 December 2017 $'000	30 June 2017 $'000	31 December 2016 $'000
ASSETS				
Current assets				
Cash and cash equivalents		**22,503**	29,675	35,136
Trade and other receivables		**25,207**	29,067	27,162
Inventories		**22,110**	16,442	18,602
Other current assets		**584**	423	590
Total current assets		**70,404**	**75,607**	**81,490**
Non-current assets				
Intangible assets and goodwill	6	**93,366**	80,586	76,255
Plant and equipment	5	**16,271**	15,073	15,127
Deferred tax assets		**5,941**	6,352	6,315
Total non-current assets		**115,578**	**102,011**	**97,697**
TOTAL ASSETS		**185,982**	**177,618**	**179,187**
LIABILITIES				
Current liabilities				
Trade and other payables		**76,670**	67,031	82,455
Interest bearing loans and borrowings		**7,535**	8,025	6,176
Current tax liabilities		**1,424**	5,641	3,645
Provisions		**2,927**	3,546	3,473
Total current liabilities		**88,556**	**84,243**	**95,749**
Non-current liabilities				
Trade and other payables		**1,457**	1,357	1,218
Interest bearing loans and borrowings		**3,332**	3,907	833
Provisions		**5,345**	3,307	2,431
Total non-current liabilities		**10,134**	**8,571**	**4,482**
TOTAL LIABILITIES		**98,690**	**92,814**	**100,231**
NET ASSETS		**87,292**	**84,804**	**78,956**
EQUITY				
Contributed equity	12	**31,801**	29,421	27,290
Other reserves		**339**	161	102
Retained earnings		**55,152**	55,222	51,564
TOTAL EQUITY		**87,292**	**84,804**	**78,956**

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

	Notes	Attributable to owners of the parent			
		Contributed equity $'000	Other reserves $'000	Retained earnings $'000	Total equity $'000
As 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)**
As at 31 December 2016		**27,290**	**102**	**51,564**	**78,956**
As at 1 July 2017		**29,421**	**161**	**55,222**	**84,804**
Profit for the half year		-	-	11,222	11,222
Total comprehensive income for the half year		**-**	**-**	**11,222**	**11,222**
Transactions with owners in their capacity as owners:					
Dividend reinvestment plan net of costs		1,380	-	-	1,380
Dividends provided for or paid	8	-	-	(11,292)	(11,292)
Employee share schemes - value of employee services		-	178	-	178
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax		1,000	-	-	1,000
		2,380	**178**	**(11,292)**	**(8,734)**
As at 31 December 2017		**31,801**	**339**	**55,152**	**87,292**

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 2017

	Notes	Half year 31 December 2017 $'000	Half year 31 December 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**366,347**	389,909
Payments to suppliers and employees (inclusive of GST)		**(340,483)**	(344,152)
Finance expenses		**(546)**	(550)
Income tax paid		**(7,463)**	(9,015)
Interest received		**152**	207
Net cash flows from discontinued operations		**-**	52
Net cash inflow from operating activities		**18,007**	**36,451**
Cash flows from investing activities			
Payments for plant and equipment		**(2,562)**	(4,833)
Payments of acquisition of intangibles		**(190)**	(1,265)
Payments for acquisitions, net of cash acquired		**(11,319)**	-
Proceeds from sale of store		**916**	-
Proceeds from funds invested		**-**	5,025
Net cash (outflow) from investing activities		**(13,155)**	**(1,073)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**1,380**	1,566
Proceeds from borrowings		**3,361**	135
Repayment of borrowings		**(5,473)**	(8,912)
Dividends paid	8	**(11,292)**	(12,450)
Net cash (outflow) from financing activities		**(12,024)**	**(19,661)**
Net (decrease)/increase in cash and cash equivalents		**(7,172)**	15,717
Cash and cash equivalents at the beginning of the year		**29,675**	19,419
Cash and cash equivalents at end of half year		**22,503**	**35,136**

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

1 SEGMENT INFORMATION

The Group's 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 2017, and corresponding prior period are set out below.

	Half year	
	31 December 2017 $'000	31 December 2016 $'000
Revenue	-	16
Expenses	-	460
Profit before income tax	-	**476**
Income tax benefit	-	(144)
Profit from discontinued operations	-	**332**

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

The remaining net liabilities as at 31 December 2017 are $nil.

3 REVENUE

	Half year	
Continuing operations	31 December 2017 $'000	31 December 2016 $'000
Revenue		
Sale of goods	**246,973**	238,063
Contract revenue	**2,191**	3,312
Fee and commission revenue	**80,454**	102,726
	329,618	**344,101**
Other income		
Cooperative advertising revenue	**4,422**	5,444
Other miscellaneous income	**868**	242
	5,290	**5,686**

4 EXPENSES

	Half year	
Continuing operations	31 December 2017 $'000	31 December 2016 $'000
Net finance expenses		
Finance charges under hire purchase contracts and chattel mortgages	**21**	30
Provisions: unwinding of discount	**27**	41
Interest on term debt	**137**	139
Line facility fee	**387**	381
Total finance expenses	**572**	**591**
Interest revenue on bank deposits	**(152)**	(207)
Net finance expenses	**420**	**384**
Depreciation and amortisation		
Plant and equipment	**3,368**	4,230
Software	**909**	684
Total depreciation and amortisation	**4,277**	**4,914**
Employee benefits expenses		
Wages and salaries	**53,821**	60,830
Defined contribution superannuation expense	**4,829**	5,469
Employment entitlements	**2,471**	4,221
Total employee benefits expenses	**61,121**	**70,520**
Rental expense relating to operating leases		
Rental expense relating to operating leases	**11,341**	10,383
Total rental expense relating to operating leases	**11,341**	**10,383**

5 PLANT AND EQUIPMENT

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

	Plant and equipment $'000	Total $'000
At 1 July 2017		
Cost	63,514	63,514
Accumulated depreciation	(48,441)	(48,441)
Net book amount	**15,073**	**15,073**
Opening net book amount	15,073	15,073
Additions	2,706	2,706
Acquired on acquisition	1,875	1,875
Disposals	(15)	(15)
Depreciation charge	(3,368)	(3,368)
Closing net book amount	**16,271**	**16,271**
At 31 December 2017		
Cost	65,990	65,990
Accumulated depreciation	(49,719)	(49,719)
Net book amount	**16,271**	**16,271**

6 INTANGIBLE ASSETS AND GOODWILL

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

	Customer list $'000	Brand $'000	Software $'000	Goodwill $'000	Total $'000
At 1 July 2017					
Cost	-	-	9,763	118,523	128,286
Accumulated amortisation and impairment	-	-	(6,487)	(41,213)	(47,700)
Net book amount	**-**	**-**	**3,276**	**77,310**	**80,586**
Opening net book amount	-	-	3,276	77,310	80,586
Additions	-	-	190	-	190
Acquired on acquisition	205	758	-	12,831	13,794
Disposals	-	-	-	(295)	(295)
Amortisation charge	-	-	(909)	-	(909)
Closing net book amount	**205**	**758**	**2,557**	**89,846**	**93,366**
At 31 December 2017					
Cost	205	758	9,932	131,059	141,954
Accumulated amortisation and impairment	-	-	(7,375)	(41,213)	(48,588)
Net book amount	**205**	**758**	**2,557**	**89,846**	**93,366**

7 BUSINESS COMBINATIONS

a) Acquisition of Clear Complexions

On 13 November 2017, VTG CC Pty Ltd (a subsidiary of Vita Group Limited) acquired the business assets of Clear Complexions, an expert in offering non-surgical cosmetic treatments through a team of medically-trained skincare professionals. The acquisition marks Vita's entry into the non-invasive medical aesthetics (NIMA) market, a category demonstrating double-digit annual growth and is part of the Group's previously announced strategy to add diversity to its portfolio.

Details of the purchase consideration, the provisional net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Cash paid	8,797
Ordinary shares issued	1,000
Contingent consideration	1,614
Total purchase consideration	**11,411**

The fair value of the 790,889 shares issued as part of the consideration paid for Clear Complexions was based on the published share price on 14 November 2017 of $1.2644 per share.

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

	Fair value $'000
Inventories	282
Plant and equipment	1,754
Intangible assets: brand	758
Intangible assets: customer list	205
Deferred tax asset	434
Payables	(13)
Provisions	(120)
Unearned revenue	(1,231)
Employee benefit liabilities	(160)
Hire purchase liability	(1,048)
Net identifiable assets acquired	**861**
Add: goodwill	10,550
Net assets acquired	**11,411**

Acquisition related costs

$214,837 in acquisition-related costs, representing stamp duty, legal and professional fees on the transfer of the business, were included in other expenses in the period. These have been disclosed as part of 'other expenses' in the statement of comprehensive income.

Contingent Consideration

Earn-Outs

In the event that certain pre-determined EBITDA targets are met by 13 November 2018 and 13 November 2019, additional consideration of up to $1,250,000 and $750,000 respectively, may be payable on 14 November of the applicable year.

The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between $0 and $2,000,000. The fair value of the contingent consideration arrangement of $1,161,276 is based on a discounted assumed probability of achievement to the EBITDA targets.

Option

As part of the asset acquisition, the sellers have entered into an agreement to receive an option to obtain a five per cent interest in VTG NIMA Pty Ltd for nominal consideration. Due to the variable nature of the option, this has been classified as a financial liability and recognised as such as part of the purchase consideration.

The fair value of the option of $452,242 was derived using an option pricing model, incorporating a number of potential scenarios and inputs.

7 BUSINESS COMBINATIONS (CONTINUED)

a) Acquisition of Clear Complexions (continued)

Acquired receivables

There were no receivables acquired in relation to this business combination.

Revenue and profit contribution*

The acquired businesses contributed revenues of $1,176,332 and EBITDA of $76,251, after the inclusion of certain acquisition costs, to the Group for the period from acquisition date to 31 December 2017.

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 2017, the contribution to the Group for revenue and EBITDA for the half year is estimated at $4,726,264 and $501,385 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 Clinic level.

	Half year	
	31 December 2017 $'000	31 December 2016 $'000
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	8,797	-
Acquisition related costs	164	-
	8,961	**-**

b) Acquisition of Telstra licensed stores and business centres

Fone Zone Pty Limited (a subsidiary of Vita Group Ltd) acquired the business assets to operate the following Telstra licensed stores:

1 December 2017	Coffs City Telstra Licensed Store
1 December 2017	Coffs Harbour Telstra Licensed Store
1 December 2017	Coffs Harbour Telstra Business Centre

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Cash paid	2,522
Total purchase consideration	**2,522**

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

	Fair value $'000
Inventories	120
Plant and equipment	121
Net identifiable assets acquired	**241**
Add: goodwill	2,281
Net assets acquired	**2,522**

Acquisition related costs

$16,194 in acquisition-related costs, representing stamp duty and legal fees on the transfer of the business, were included in other expenses in the period. These have been disclosed as part of 'other expenses' in the statement of comprehensive income.

Contingent Consideration

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

7 BUSINESS COMBINATIONS (CONTINUED)

b) Acquisition of Telstra licensed stores and business centres (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 $900,749 and EBITDA of $57,615 to the Group for the period from acquisition date to 31 December 2017.

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 2017, the contribution to the Group for revenue and EBITDA for the half year is estimated at $5,123,483 and $599,407 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 2017 $'000	31 December 2016 $'000
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	2,522	-
Acquisition related costs	13	285
	2,535	**285**
Less: Balances acquired		
Cash	-	-
Bank overdraft	-	-
	-	**-**
	2,535	**285**

Regarding the prior year acquisitions, settlement had not occurred as at 31 December 2016, and a provisional liability had been recorded for the settlement amounts owing. Settlement occurred on 16 February 2017.

8 DIVIDENDS

	Half year	
	31 December 2017 $'000	31 December 2016 $'000
Dividends provided for or paid during the the half year:		
Final dividend for FY17 7.40 cents per share (FY16: 8.21)	**11,292**	12,450
	11,292	**12,450**

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 4.7 cents per fully paid ordinary share (2016: 9.2 cents per share), fully franked based on tax paid at 30%.

	Half year	
	31 December 2017 $'000	31 December 2016 $'000
Interim dividend FY18 4.7 cents per share (FY17: 9.2)	**7,251**	13,981
	7,251	**13,981**

9 IMPAIRMENT TESTS FOR GOODWILL

At 31 December 2017 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 2017. The next test of impairment of goodwill will occur on or before 30 June 2018.

	Carrying amount of goodwill $'000
At 1 July 2016	66,829
Additions	5,491
At 31 December 2016	**72,320**

	Carrying amount of goodwill $'000
At 1 July 2017	77,310
Additions	12,831
Disposals	(295)
At 31 December 2017	**89,846**

10 CONTINGENCIES

The Group had no contingent assets or liabilities at 31 December 2017 (2016: nil).

11 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Contracts were entered into by the Group to acquire the issued shares in TCB Comms Pty Ltd, Kan Tel Pty Ltd and Sales Comms Pty Ltd, an independent operator in the Telstra Licensee network, for a cash consideration of $5,750,000 plus an adjustment amount to be determined on completion date.

A further contract was entered into by the Group to acquire the business assets of additional Telstra Licensed stores and business centres for a total cash consideration of $3,660,000.

Under these agreements, Vita will own and operate the following Telstra licensed stores and business centres.

Location	Contract Date	Settlement Date
Telstra Licensed Store Sale	12/12/2017	01/02/2018
Telstra Licensed Store Traralgon	12/12/2017	01/02/2018
Telstra Licensed Store Warragul	12/12/2017	01/02/2018
Telstra Licensed Store Tweed City	15/01/2018	01/03/2018
Telstra Licensed Store Centro Tweed	15/01/2018	01/03/2018
Telstra Business Centre Tweed	15/01/2018	01/03/2018

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

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

Contributed equity	31 December 2017 $'000	30 June 2017 $'000	31 December 2016 $'000
Ordinary shares			
Ordinary shares	**31,801**	29,421	27,290
Issued and fully paid	**31,801**	**29,421**	**27,290**

12 CONTRIBUTED EQUITY (CONTINUED)

Movements in ordinary shares

	Number of shares	$'000
Opening balance 1 July 2016	**151,639,419**	25,724
329,044 new shares issued at $4.7579 per share	**329,044**	1,566
Balance 31 December 2016	**151,968,463**	**27,290**
Opening balance 1 July 2017	**152,599,735**	29,421
892,502 new shares issued at $1.5468 per share	**892,502**	1,380
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	**790,889**	1,000
Balance 31 December 2017	**154,283,126**	**31,801**

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 2017 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 2017 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*.

Accounting standards issued but not effective
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2018). AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group is still to assess its full impact but expects the impact not to be material.

AASB 16 Leases. The new standard changes how lessees account for operating leases. In principle it requires lessees to recognise operating leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The Group is in the process of assessing the impact of the new standard on its leasing contracts and it is likely that the introduction of this new standard will have a material impact due to bringing the existing off balance sheet leases on to the balance sheet when AASB 16 is first adopted. The standard must be adopted for financial years commencing on or after 1 January 2019, but is available for early adoption.

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 $17.9 million (31 December 2016: $22.3m) 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 2017.

In the Directors' opinion:

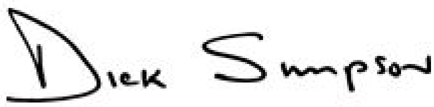
(a) the interim financial statements and notes set out on pages 4 to 17 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards AASB 134 Interim Financial Reporting

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial period ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Dick Simpson
Chairman

Maxine Horne
Director and Chief Executive Officer

Brisbane
Date: 28 February 2018

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Independent Auditor's Review Report to the Members of Vita Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Vita Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Vita Group Limited does not give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

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 and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 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 have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Cameron Smith

Cameron Smith
Partner - Audit & Assurance

Brisbane, 28 February 2018