HALF YEAR REPORT FY20

CELEBRATING 25 YEARS

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This release has been authorised by the VTG Board vita®

Vita Group Limited

ABN 62 113 178 519

Interim Financial Report

for the half year ended 31 December 2019

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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 2019 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 2019.

DIRECTORS

The following persons held office as Directors of Vita Group Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Dick Simpson, Independent Non-Executive Chairman
Maxine Horne, Chief Executive Officer
Neil Osborne, Independent Non-Executive Director
Robyn Watts, Independent Non-Executive Director (resigned 24 October 2019)
Paul Wilson, Independent Non-Executive Director
Paul Mirabelle, Independent Non-Executive Director

REVIEW AND RESULTS OF OPERATIONS

The Group reported record revenues of $431.6 million for the six months to 31 December 2019, a 14 per cent increase on the prior year. Earnings before interest and tax (EBIT) increased 11 per cent to $22.1 million, while net profit after tax (NPAT) increased on prior year by three per cent to $14.5 million.

During the period, the Group implemented 'AASB16 *Leases*'. For comparative purposes, earnings before interest, tax, depreciation and amortisation (EBITDA) excluding the impact of AASB16, increased five per cent to $26.4 million, reflecting revenue growth and productivity improvements, with the Group fully offsetting the previously announced loss of $13.0 million in bespoke remuneration from Telstra.

The result was mainly driven by the performance of Vita's information and communications technology (ICT) retail channel, which grew device and accessory revenues, more than offsetting the reduction in connectivity income, an expected outcome following Telstra's recent shift towards casual plans. Revenues also grew in the Group's skin-health and wellness (SHAW) channel, through clinic acquisitions and improved contribution from its greenfield clinics.

Vita ended the period with net cash of $23.8 million as a result of solid cash conversion and disciplined management of investments, providing the Group with flexibility to invest in strategic growth activities.

A reconciliation of EBITDA pre-AASB 16 to the reported profit before tax in the consolidated statement of comprehensive income is tabled below:

	Half year	
	31 December 2019	31 December 2018
Profit before tax from operations	**20.6**	**19.6**
Add: net finance costs	1.5	0.3
Add: AASB 16 lease interest	(1.1)	-
Add: depreciation and amortisation	11.7	5.1
Add: AASB 16 lease depreciation	(6.3)	-
EBITDA pre-AASB 16	**26.4**	**25.0**

ICT channel revenues increased by 13 per cent to a record $420.0 million, and EBITDA pre-AASB16 increased by nine per cent to $43.7 million. This result was reflective of the performance of the retail division, which delivered significant growth in hardware and accessory categories and continued to reap the benefits of productivity gains and footprint optimisation. The ICT result was achieved despite changes to Vita's remuneration construct with Telstra coming into effect at the beginning of the period. As outlined in June 2019, these changes included a shift in Vita's remuneration away from network connectivity and towards hardware, accessories and non-transactional performance metrics. Vita also agreed to forego approximately $13.0 million per annum in legacy remuneration from 1 July 2019, in exchange for an extension of its master licence tenure, the introduction of an annual performance-based tenure extension mechanism, and an increase in the number of allowable Vita owned stores in the Telstra retail network. Vita's accessories brand, Sprout, continued to contribute to ICT channel growth through ongoing innovation in a range of product categories.

The SHAW channel delivered a solid contribution to the Group's top line result, with revenue increasing 65 per cent on the prior year to $11.0 million, driven by the continued expansion of the clinic network through acquisitions and greenfield additions, along with improvements in performance. Clinic productivity improved, as the Group drew on learnings from its initial period of operation and leveraged the capabilities which have been integral to the success of the ICT channel. After the allocation of corporate overheads, EBITDA pre-AASB16 was a $0.8 million loss, representing a material improvement on the $3.3 million loss recorded in the second half of FY19 - a period in which Vita made significant investments in capability and converted several clinics to the Artisan Aesthetic Clinics brand. At period end, Vita operated 16 points of presence across Queensland, New South Wales, Victoria and the Australian Capital Territory, 11 of which were Artisan branded.

The Board declared a fully-franked interim dividend of 5.3 cents per share, equating to $8.7 million, an increase of three per cent on prior year, to be paid on 9 April 2020 to shareholders on record as at 27 March 2020.

REVIEW AND RESULTS OF OPERATIONS (CONTINUED)

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

	Half year	
	31 December 2019	**31 December 2018**
Basic earnings per share (cents)	**8.90**	8.76
Net debt / (Net debt plus equity)*	**(25.2%)**	(19.4%)

** Net debt comprises interest bearing loans and borrowings*

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: 21 February 2020

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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 2019, 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, 21 February 2020

	Notes	Half year 31 December 2019 $'000	Half year 31 December 2018 $'000
Revenue	2	**431,618**	377,030
Changes in inventories		**(314,127)**	(261,394)
Gross profit		**117,491**	**115,636**
Other income	2	**4,538**	4,602
Employee benefits expense	3	**(68,278)**	(67,690)
Marketing expense		**(4,004)**	(4,734)
Other expenses		**(15,971)**	(22,790)
Depreciation and amortisation expense	3	**(11,698)**	(5,117)
		22,078	**19,907**
Finance income	3	**93**	305
Finance expenses	3	**(1,592)**	(641)
Net finance costs	**3**	**(1,499)**	**(336)**
Profit before income tax		**20,579**	**19,571**
Income tax expense		**(6,047)**	(5,465)
Profit for the period		**14,532**	**14,106**
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		**14,532**	**14,106**
Earnings per share for profit attributable to the ordinary equity holders of the company:			
- basic (cents per share)		**8.90**	8.76
- diluted (cents per share)		**8.81**	8.66

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000	31 December 2018 $'000
ASSETS				
Current assets				
Cash and cash equivalents		**35,662**	26,672	27,073
Trade and other receivables		**28,234**	25,720	31,011
Inventories		**31,699**	24,162	29,433
Contract asset		**404**	453	334
Total current assets		**95,999**	**77,007**	**87,851**
Non-current assets				
Plant and equipment	4	**27,063**	24,085	16,583
Right of use asset	5	**41,721**	-	-
Intangible assets and goodwill	6	**108,180**	106,682	101,619
Deferred tax assets		**8,894**	8,757	8,241
Total non-current assets		**185,858**	**139,524**	**126,443**
TOTAL ASSETS		**281,857**	**216,531**	**214,294**
LIABILITIES				
Current liabilities				
Trade and other payables		**92,147**	83,947	84,935
Interest bearing loans and borrowings		**8,217**	5,696	5,595
Lease liabilities	5	**14,351**	-	-
Current tax liabilities		**1,707**	1,318	1,170
Provisions		**5,723**	5,422	5,331
Total current liabilities		**122,145**	**96,383**	**97,031**
Non-current liabilities				
Trade and other payables		**-**	2,407	1,820
Interest bearing loans and borrowings		**3,639**	2,952	4,248
Lease liabilities	5	**32,252**	-	-
Provisions		**5,712**	5,563	4,967
Total non-current liabilities		**41,603**	**10,922**	**11,035**
TOTAL LIABILITIES		**163,748**	**107,305**	**108,066**
NET ASSETS		**118,109**	**109,226**	**106,228**
EQUITY				
Contributed equity	12	**43,017**	41,056	40,102
Reserve		**998**	713	448
Retained earnings		**74,094**	67,457	65,678
TOTAL EQUITY		**118,109**	**109,226**	**106,228**

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

		Attributable to owners of the parent			
	Notes	Contributed equity $'000	Reserve $'000	Retained earnings $'000	Total equity $'000
As at 1 July 2018		**38,925**	**183**	**58,629**	**97,737**
Profit for the half year		-	-	14,106	14,106
Total comprehensive income for the half year		**-**	**-**	**14,106**	**14,106**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	8	-	-	(7,057)	(7,057)
Dividend reinvestment plan net of costs		1,177	-	-	1,177
Employee share schemes - value of employee services		-	265	-	265
		1,177	**265**	**(7,057)**	**(5,615)**
As at 31 December 2018		**40,102**	**448**	**65,678**	**106,228**
As at 1 July 2019		**41,056**	**713**	**67,457**	**109,226**
Adjustment on adoption of AASB 16 (net of tax)		-	-	(1,410)	(1,410)
Restated balance as at 1 July 2019		**41,056**	**713**	**66,047**	**107,816**
Profit for the half year		-	-	14,532	14,532
Total comprehensive income for the half year		**-**	**-**	**14,532**	**14,532**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	8	-	-	(6,485)	(6,485)
Dividend reinvestment plan net of costs		1,961	-	-	1,961
Employee share schemes - value of employee services		-	285	-	285
		1,961	**285**	**(6,485)**	**(4,239)**
As at 31 December 2019		**43,017**	**998**	**74,094**	**118,109**

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 2019

	Notes	Half year 31 December 2019 $'000	Half year 31 December 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**475,463**	415,481
Payments to suppliers and employees (inclusive of GST)		**(441,650)**	(393,680)
Interest received		**93**	305
Finance expenses		**(1,575)**	(581)
Income taxes paid		**(5,157)**	(8,156)
Net cash inflow from operating activities		**27,174**	**13,369**
Cash flows from investing activities			
Purchase of plant and equipment		**(7,763)**	(4,810)
Purchase of intangible assets		**(516)**	(599)
Acquisition of businesses and subsidiaries, net of cash acquired		**(2,596)**	(1,823)
Proceeds from sale of stores		**1,900**	550
Net cash (outflow) from investing activities		**(8,975)**	**(6,682)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**1,961**	1,177
Proceeds from borrowings		**6,695**	-
Repayment of borrowings		**(3,486)**	(5,347)
Lease payments		**(7,894)**	-
Dividends paid	8	**(6,485)**	(7,057)
Net cash (outflow) from financing activities		**(9,209)**	**(11,227)**
Net increase/(decrease) in cash and cash equivalents		**8,990**	(4,540)
Cash and cash equivalents at the beginning of the year		**26,672**	31,613
Cash and cash equivalents at end of half year		**35,662**	**27,073**

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

1 SEGMENT INFORMATION

Description of segments and principal activities

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Team and the Board, who are responsible for allocating resources and assessing performance of the operating segments. There are two reportable segments for financial statement purposes, being Information and Communication Technology (ICT) and Skin-health and Wellness (SHAW).

ICT

Products sold comprise mobile phones and connections to plans, accessories and other technology products.

SHAW

Products sold comprise skin care treatments and products.

The operating segments sell different products and services and as a result have different risk profiles.

The Group operates in Australia.

Segment information provided to the Executive Team and the Board

The segment information for the half year ended 31 December 2019 is as follows:

	Half year	
	31 December 2019 $'000	**31 December 2018 $'000**
ICT		
Revenue from external customers		
Sale of goods	**352,017**	287,605
Contract revenue	**2,402**	2,428
Commission revenue	**65,555**	80,037
Segment revenue	**419,974**	**370,070**
SHAW		
Revenue from external customers		
Sale of goods	**10,476**	6,584
Commission revenue	**536**	77
Segment revenue	**11,012**	**6,661**
Total segment revenue	**430,986**	**376,731**
Other revenue not allocated	**632**	299
Group revenue	**431,618**	**377,030**

Revenues from external customers are derived from the sale of ICT and SHAW products and services as defined above. The revenue from external parties is measured in a manner consistent with that in the statement of comprehensive income.

No reporting is currently provided with respect to segment assets and liabilities as these items are managed at a consolidated Group level only. As such, no disclosure has been provided on segment assets and liabilities.

1 SEGMENT INFORMATION (CONTINUED)

Other segment information

A reconciliation of EBITDA pre-AASB 16 to Group operating profit before income tax is provided as follows:

	Half year	
	31 December 2019 $'000	31 December 2018 $'000
ICT segment EBITDA pre-AASB 16	**43,674**	39,913
SHAW segment EBITDA pre-AASB 16	**(810)**	(365)
Total reportable segment EBITDA pre-AASB 16	**42,864**	**39,548**
ICT depreciation and amortisation	**(2,944)**	(2,136)
SHAW depreciation and amortisation	**(1,578)**	(878)
ICT AASB 16 lease interest	**711**	-
SHAW AASB 16 lease interest	**156**	-
Other revenue not allocated	**632**	299
Other expenses not allocated	**(16,100)**	(14,823)
Depreciation and amortisation not allocated	**(1,663)**	(2,103)
Group EBIT	**22,078**	**19,907**
Interest revenue	**93**	305
Finance costs	**(1,592)**	(641)
Group profit before income tax	**20,579**	**19,571**

2 REVENUE AND OTHER INCOME

	Half year	
	31 December 2019 $'000	31 December 2018 $'000
Revenue		
Sale of goods[a]	**363,125**	294,488
Contract revenue[b]	**2,402**	2,428
Commission revenue[a]	**66,091**	80,114
Total revenue	**431,618**	**377,030**
Other income		
Cooperative advertising income[a]	**3,360**	3,474
Other miscellaneous income[a]	**1,178**	1,128
Total other income	**4,538**	**4,602**

[a] *Recognised by goods transferred at a point in time*

[b] *Recognised by services transferred over time*

3 EXPENSES

	Half year	
	31 December 2019 $'000	31 December 2018 $'000
Net finance expenses		
Finance charges under chattel mortgages	**29**	22
Provisions: unwinding of discount	**17**	60
Interest on term debt	**95**	179
Line facility fee	**361**	380
Interest on lease liabilities	**1,087**	-
Other interest expense	**3**	-
Total finance expenses	**1,592**	**641**
Interest revenue on bank deposits	**(93)**	(305)
Net finance expenses	**1,499**	**336**
Depreciation and amortisation		
Plant and equipment	**4,308**	3,625
Right of use asset	**6,839**	-
Brands	**41**	404
Customer lists	**262**	67
Software	**248**	1,021
Total depreciation and amortisation	**11,698**	**5,117**
Employee benefits expenses		
Wages and salaries	**59,498**	59,716
Defined contribution superannuation expense	**4,972**	5,009
Employment entitlements	**3,808**	2,965
Total employee benefits expenses	**68,278**	**67,690**
Expense relating to leases		
Expense relating to leases[a]	**4,620**	11,454
Total expense relating to leases	**4,620**	**11,454**

[a] *The current year relates to short-term leases and variable lease payments. See Note 5 for further details.*

4 PLANT AND EQUIPMENT

	Plant and equipment $'000
At 1 July 2018	
Cost	65,242
Accumulated depreciation	(50,440)
Opening net book amount	**14,802**
Opening net book amount	14,802
Additions	5,204
Acquisition through business combination	256
Disposals	(54)
Depreciation charge	(3,625)
Closing net book amount	**16,583**
At 31 December 2018	
Cost	65,076
Accumulated depreciation	(48,493)
Closing net book amount	**16,583**

	Plant and equipment $'000
At 1 July 2019	
Cost	74,665
Accumulated depreciation	(50,580)
Opening net book amount	**24,085**
Opening net book amount	24,085
Additions	8,129
Acquisition through business combination	337
Transfers	(1,136)
Disposals	(44)
Depreciation charge	(4,308)
Closing net book amount	**27,063**
At 31 December 2019	
Cost	73,393
Accumulated depreciation	(46,330)
Closing net book amount	**27,063**

5 LEASING

The Group has lease contracts for the rental of store and clinic outlets and head office premises and various items of equipment.

With the exception of short-term leases and leases of low value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of store sales) are excluded from the initial measurement of the lease liability and asset.

These leases have an average life of between one and eight years at inception. There are no restrictions placed upon the lessee by entering into these leases. The leases contain varying terms, escalation clauses and renewal rights. On renewal, the lease terms are renegotiated. Under the terms of certain computer equipment leases, the Group has the option to acquire the leased assets for their agreed fair value on expiry of the leases.

Right-of-use assets recognised on the consolidated balance sheet are as follows:

	Half year	
	31 December 2019 $'000	30 June 2019 $'000
Leasehold property	**41,721**	-
Total right-of-use assets	**41,721**	**-**

Additions to right-of-use assets, including acquisition through business combinations, during the period amounted to $11,354,373 (31 December 2018: nil). Depreciation of right-of-use assets for the period has been disclosed in Note 3.

Lease liabilities recognised on the consolidated balance sheet are as follows:

	Half year	
	31 December 2019 $'000	30 June 2019 $'000
Lease liabilities (current)	**14,351**	-
Lease liabilities (non-current)	**32,252**	-
Total lease liabilities	**46,603**	**-**

The lease liabilities are secured by the related underlying assets.

Future minimum lease payments relating to lease liabilities at 31 December 2019 are as follows:

Future minimum lease payments due	1 year or less $'000	1 - 5 years $'000	Over 5 years $'000	Total $'000
31 December 2019				
Lease payments	**16,281**	**33,118**	**1,831**	**51,230**
Finance charges	**(1,930)**	**(2,650)**	**(47)**	**(4,627)**
Total lease liabilities	**14,351**	**30,468**	**1,784**	**46,603**

The Group has applied the modified retrospective approach, as such comparatives have not been restated.

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases or leases of low value assets. Payments made for these leases are accounted for on a straight-line basis over the lease term. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	Half year
	31 December 2019 $'000
Short-term leases (included in other expenses)	**4,600**
Variable lease payments not included in lease liabilities (included in other expenses)	**20**
Total lease payments not recognised as a liability	**4,620**

Variable lease payments include rentals based on revenue from the use of the underlying asset.

5 LEASING (CONTINUED)

Lease payments not recognised as a liability (continued)

At 31 December 2019 the Group had committed to leases that had not yet commenced with total expected future cash outflows of $1,284,175.

Accounting policy applicable from 1 July 2019

As described in Note 13, the Group has applied AASB 16 using the modified retrospective approach effective from 1 July 2019 and therefore comparative information has not been restated. Comparatives information remains reported under AASB 117 and IFRIC 4.

Recognition and measurement

The Group as a lessee

For any new contracts entered into on or after 1 July 2019, the Group considers whether a contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition the Group assesses whether:

- the contract contains an identified asset, which is explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group. If the supplier has a substantive substitution right, then the asset is not identified
- the Group has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use
- the Group has the right to direct the use of the asset throughout the period of use
- the Group assesses whether it has the right to direct 'how and for what purpose' the asset is used for.

At lease commencement, the Group recognises a right-of-use asset and a lease liability on the consolidated balance sheet. The right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjusted for remeasurement of lease liabilities.

The cost of the right-of-use asset comprises the initial measurement of the lease liability, initial direct costs incurred when entering into the lease, an estimate of the costs to be incurred in dismantling and removing the underlying asset and restoring the site to the condition required by the terms and conditions of the lease, lease payments made in advance of the lease commencement date less any lease incentives received.

Right-of-use assets are amortised on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate.

Lease payments comprise fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or in the consolidated statement of comprehensive income if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases (leases with an expected term of 12 months or less) and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Incentives for entering into short-term or leases of low-value assets are recognised evenly over the term of the lease.

The Group as a lessor

The Group's accounting policy under AASB16 has not changed the basis of recognition from the comparative period.

As a lessor the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and benefits incidental to ownership of the underlying asset, and classified as operating lease if it does not.

6 INTANGIBLE ASSETS AND GOODWILL

	Brands $'000	Customer lists $'000	Software $'000	Goodwill $'000	Total $'000
At 1 July 2018					
Cost	981	355	10,315	119,287	130,938
Accumulated amortisation and impairment	(172)	(51)	(8,357)	(21,816)	(30,396)
Opening net book amount	**809**	**304**	**1,958**	**97,471**	**100,542**
Opening net book amount	809	304	1,958	97,471	100,542
Additions	-	-	599	-	599
Acquisition through business combination	24	253	-	1,857	2,134
Disposals	-	-	-	(164)	(164)
Amortisation charge	(404)	(67)	(1,021)	-	(1,492)
Closing net book amount	**429**	**490**	**1,536**	**99,164**	**101,619**
At 31 December 2018					
Cost	1,005	609	10,489	120,980	133,083
Accumulated amortisation and impairment	(576)	(119)	(8,953)	(21,816)	(31,464)
Closing net book amount	**429**	**490**	**1,536**	**99,164**	**101,619**

	Brands $'000	Customer lists $'000	Software $'000	Goodwill $'000	Total $'000
At 1 July 2019					
Cost	1,005	1,545	10,463	126,205	139,218
Accumulated amortisation and impairment	(850)	(279)	(9,591)	(21,816)	(32,536)
Opening net book amount	**155**	**1,266**	**872**	**104,389**	**106,682**
Opening net book amount	155	1,266	872	104,389	106,682
Additions	-	-	509	7	516
Acquisition through business combination	-	100	-	2,219	2,319
Disposals	-	-	-	(786)	(786)
Amortisation charge	(41)	(262)	(248)	-	(551)
Closing net book amount	**114**	**1,104**	**1,133**	**105,829**	**108,180**
At 31 December 2019					
Cost	1,005	1,645	10,891	127,645	141,186
Accumulated amortisation and impairment	(891)	(541)	(9,758)	(21,816)	(33,006)
Closing net book amount	**114**	**1,104**	**1,133**	**105,829**	**108,180**

7 BUSINESS COMBINATIONS

a) Acquisition of Skin-health and Wellness clinics

During the period, VTG Artisan Pty Ltd (a subsidiary of Vita Group Limited) acquired the business assets and certain liabilities of the following clinics operating in the Skin-health and Wellness industry.

Location	Settlement date
Inject Skin Clinic	2 July 2019
Focus Cosmetic Medicine	16 July 2019
London Cosmetic Clinic	19 July 2019
Defy Aesthetics Clinic	6 November 2019
Cottontree Injectable Clinic	11 November 2019

All acquisitions were individually immaterial and have been aggregated for disclosure purposes.

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

	$'000
Purchase consideration	
Cash paid	1,581
Contingent consideration	220
Total purchase consideration	**1,801**

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

	Fair value $'000
Inventories	81
Prepayments	4
Other assets	8
Plant and equipment	305
Right of use asset	278
Intangible assets: customer list	100
Deferred tax asset	46
Lease liability	(279)
Unearned revenue	(16)
Provisions	(125)
Employee benefit liabilities	(7)
Deferred tax liability	(22)
Net identifiable assets acquired	**373**
Add: goodwill	1,428
Net assets acquired	**1,801**

Goodwill

Goodwill is primarily related to the expected future profitability of the acquired business. Goodwill has been allocated to cash generating units at 31 December 2019. It is not expected to be deductible for tax purposes except on subsequent disposal.

Acquisition related costs

Acquisition-related costs of $76,936 representing stamp duty and legal fees on the transfer of the business is included in other expenses in the consolidated statement of comprehensive income.

Contingent Consideration

Earn-Outs

In the event that certain pre-determined revenue targets are achieved within specified timeframes, additional consideration of up to $325,000 may be payable over a period from 30 September 2020 to 31 December 2022.

The potential undiscounted amount of all future payments that the Group could be required to make under these arrangements is between $0 and $325,000. The fair value of the contingent consideration arrangements of $219,778 is based on a discounted assumed probability of achievement to the revenue targets.

7 BUSINESS COMBINATIONS (CONTINUED)

a) Acquisition of Skin-health and Wellness clinics (continued)

Contingent Consideration (continued)

Reverse Earn-Outs

Regarding London Cosmetic Clinic, in the event that certain pre-determined revenue targets are not achieved by the clinic within specified timeframes, payment of up to $100,000 may be due to Vita Group over a period from September 2020 to September 2021. The fair value of this arrangement of $0 is based on assumed probability of non-achievement.

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 clinics 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*

London Cosmetic Clinic contributed revenue of $185,872 and gross profit of $142,633 to the Group for the period from acquisition date to 31 December 2019. On the basis of trading results from the date of acquisition to the end of the reporting period, had the business been acquired on 1 July 2019, the contribution to the Group for revenue and gross profit for the half year is estimated at $206,026 and $158,099 respectively. Projected full year contribution, based on internal forecast modelling to 30 June 2020, for revenue and gross profit is estimated at $526,404 and $401,586 respectively. London Cosmetic Clinic was primarily an acquisition of capability and a customer database which, along with other planned acquisitions, will be rolled into a new Artisan branded clinic. The existing location, in its current standalone format, contributed an EBIT loss of $50,272 from date of acquisition to 31 December. On the basis of these trading results, had the business been acquired on 1 July 2019, the contribution to Group EBIT is an estimated loss of $55,723.

Inject Skin, Defy Aesthetics and Cottontree clinics were all acquisitions of talent, customer databases and cosmetic machinery. These clinics were rolled into one Artisan-branded greenfield clinic in Maroochydore. Artisan Maroochydore contributed revenue of $442,966 and gross profit of $262,311 respectively to the Group for the half year ended 31 December 2019. This includes revenue and gross profit from Inject Skin Clinic from 2 July 2019 and thereafter the combined Maroochydore clinic from November 2019. Projected full year contribution, based on internal forecast modelling to 30 June 2020, for revenue and gross profit is estimated at $1,669,588 and $1,000,717 respectively. Due to the combination of these 4 clinics into 1, revenue and profit contribution from individual acquisitions is impracticable to reliably estimate and has therefore not been included.

Focus Cosmetic Medicine was an acquisition of a customer database and has been rolled into the existing clinic in Bruce,ACT. As such, it is impracticable to reliably estimate revenue and profit contribution from clients specifically attributable to this acquisition, and disclosure has therefore not been included.

*EBIT has been stated in the place of NPAT for business combinations revenue and profit contribution as 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 2019 $'000	31 December 2018 $'000
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	1,580	1,698
Acquisition related costs	58	124
	1,638	**1,822**
Total outflow of cash to acquire business, net of cash acquired	**1,638**	**1,822**

7 BUSINESS COMBINATIONS (CONTINUED)

b) Acquisition of Telstra licensed stores

On 1 August 2019, Fone Zone Pty Ltd (a subsidiary of Vita Group Limited) acquired the business assets and certain liabilities of Telstra Licensed Store Whitsundays.

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

	$'000
Purchase consideration	
Cash paid	923
Total purchase consideration	**923**

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

	Fair value $'000
Inventories	47
Other assets	16
Plant and equipment	90
Right of use asset	6
Deferred tax asset	11
Provisions	(36)
Deferred tax liability	(2)
Net identifiable assets acquired	**132**
Add: goodwill	791
Net assets acquired	**923**

Goodwill

Goodwill is primarily related to the expected future profitability of the acquired business. Goodwill has been allocated to cash generating units at 31 December 2019. It is not expected to be deductible for tax purposes except on subsequent disposal.

Acquisition related costs

Acquisition-related costs of $34,565 representing stamp duty on the transfer of the business is included in other expenses in the consolidated statement of comprehensive income.

Contingent Consideration

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

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 this store 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 business contributed revenues of $2,711,532 and EBIT of $221,220 to the Group for the period from acquisition date to 31 December 2019.

On the basis of trading results from the date of acquisition to the end of the reporting period, had the business been acquired on 1 July 2019, the contribution to the Group for revenue and EBIT for the half year is estimated at $3,260,928 and $266,042 respectively. Projected full year contribution, based on internal forecast modelling to 30 June 2020, for revenue and EBIT is estimated at $6,217,669 and $548,385 respectively.

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

7 BUSINESS COMBINATIONS (CONTINUED)

b) Acquisition of Telstra licensed stores (continued)

	Half year	
	31 December 2019 $'000	31 December 2018 $'000
Outflow of cash to acquire business, net of cash acquired		
Cash consideration	923	-
Acquisition related costs	35	-
	958	**-**
Total outflow of cash to acquire business, net of cash acquired	**958**	**-**

8 DIVIDENDS PAID AND PROPOSED

Declared and paid during the half year

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at balance sheet dates.

	Half year	
	31 December 2019 $'000	31 December 2018 $'000
Dividends provided for or paid during the the half year:		
Final dividend for FY19 4.0 cents per share (FY18: 4.4)	**6,485**	7,057
	6,485	**7,057**

Dividends not recognised at the end of the reporting period

In addition to the above dividends, since the end of the half year the Directors have approved the payment of an interim dividend of 5.3 cents per fully paid ordinary share (FY19: 5.2 cents per share), fully franked based on tax paid at 30%.

	Half year	
	31 December 2019 $'000	31 December 2018 $'000
Interim dividend FY20 5.3 cents per share (FY19: 5.2)	**8,679**	8,397
	8,679	**8,397**

9 IMPAIRMENT TESTS FOR GOODWILL

At 31 December 2019 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 2019. The next test of impairment of goodwill will occur on or before 30 June 2020.

	Half year	
Goodwill CGU	**31 December 2019 $'000**	**31 December 2018 $'000**
Information and Communication Technology (ICT)	**85,784**	85,779
Skin-health and Wellness (SHAW)	**20,045**	13,385
Total Goodwill	**105,829**	**99,164**

10 CONTINGENCIES

The Group had no contingent assets or liabilities at 31 December 2019 (30 June 2019: nil).

11 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Contracts were entered into by the Group to acquire the business assets and certain liabilities of a number of Skin-health and Wellness clinics for a total consideration of $2,500,000 plus / minus adjustment amounts to be determined on or post completion. In addition, should certain pre-determined revenue targets be achieved within specified timeframes, additional consideration of up to $1,275,000 may be payable.

Under these agreements, Vita will own and operate the following Skin-health and Wellness clinics:

Location	**Contract Date**	**Settlement Date**
Rewind Skin Clinic	20 December 2019	13 January 2020
Lily Room Cosmetic Medical Clinic	3 December 2019	20 January 2020
HC Medical - Cosmetic Clinic	16 December 2019	3 February 2020

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.

There have been no other matters or circumstances not otherwise dealt with in this report between the reporting date and the date the financial statements were approved for issue, that will significantly affect the operation of the Group, the results of those operations or the state of affairs of the Group or subsequent financial periods.

12 CONTRIBUTED EQUITY

Contributed equity	**31 December 2019 $'000**	**30 June 2019 $'000**	**31 December 2018 $'000**
Ordinary shares			
Ordinary shares	**43,017**	41,056	40,102
Issued and fully paid	**43,017**	**41,056**	**40,102**

Movements in contributed equity	**Number of shares**	**$'000**
Opening balance 1 July 2018	**160,391,036**	38,925
1,086,751 new shares issued at $1.0825 per share	**1,086,751**	1,177
Balance 31 December 2018	**161,477,787**	**40,102**
Opening balance 1 July 2019	**162,114,719**	41,056
1,641,804 new shares issued at $1.1942 per share	**1,641,804**	1,961
Balance 31 December 2019	**163,756,523**	**43,017**

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 INTERIM REPORT

This general purpose consolidated interim financial report for the half-year reporting period ended 31 December 2019 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 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 2019 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*.

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

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 approximately $20.2 million (31 December 2018: $19.4 million) of unused master asset finance facilities with the Australia and New Zealand Banking Group Limited and Bank of Queensland available for its immediate use to meet financial obligations and to fund its investment strategy for the coming year and onwards.

New Standards adopted

The Group has applied the following standards and amendments for the first time for the interim reporting period commencing 1 July 2019:

AASB 16 Leases

The Group has adopted AASB 16 *Leases* from 1 July 2019.

AASB 16 replaces existing lease guidance, including AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and Interpretation 127 *Evaluating the substance of Transactions involving the Legal Form of a Lease*.

The Standard has been adopted from 1 July 2019, resulting in the Group recognising right-of-use assets and related lease liabilities for leases previously classified as operating leases under AASB 117, subject to the practical expedients described below.

The Standard has been applied using the modified retrospective approach, with the cumulative impact of adopting AASB 16 recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Comparative periods have not been restated as permitted under the specific transition provisions in the Standard.

The nature of expenses related to these leases has changed as the Group now recognises an amortisation charge for the right-of-use asset and interest expense for the lease liability.

Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease and assets and liabilities only to the extent there was a timing difference between actual lease payments and the expense recognised.

In applying AASB 16 the Group has elected to use the following practical expedients permitted by the Standard:

- accounting for leases with a remaining lease term of less than 12 months from 1 July 2019 as short-term leases
- excluding leases for which the underlying asset is of low value from the calculation of lease liabilities
- using hindsight in determining the lease term when considering options to extend and terminate leases
- applying a single discount rate to the portfolio of leases with reasonably similar characteristics
- excluding initial direct costs in the measurement of the right-of-use asset at 1 July 2019
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review on the right-of-use asset at 1 July 2019
- not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group has relied on its assessment made applying AASB 117 and IFRIC 4.

13 BASIS OF PREPARATION OF INTERIM REPORT (CONTINUED)

AASB 16 Leases (continued)

For short-term and low-value leases, the lease expense is accounted for on a straight-line basis over the lease term.

Effect of adoption of AASB 16

The Group has lease contracts for the rental of store and clinic outlets and head office premises and various items of computer and office equipment.

For leases of store and clinic outlets and head office premises previously classified as operating leases under AASB 117, the adoption of AASB 16 resulted in the recognition of a lease liability and right-of-use asset at the date of initial application. Computer, office equipment and property leases with a remaining lease term of less than 12 months from the date of initial application have been accounted for as short-term leases.

The associated right-of-use assets for property leases have been measured on a retrospective basis as if AASB 16 had always been applied. Impairment has been recognised for leases previously classified as onerous at 30 June 2019. The following summarises the impact of transition to AASB 16 on 1 July for right-of-use assets:

Right-of-use assets	**$'000**
Carrying value disclosed at 30 June 2019	-
Remeasurement on retrospective basis as if AASB 16 applied from lease commencement	37,816
Less onerous lease adjustment	(778)
Carrying value of right-of-use assets recognised under AASB 16 as at 1 July 2019	**37,038**

Lease liabilities have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate of 5% as of 1 July 2019. The following summarises the impact of transition to AASB 16 on 1 July 2019 for lease liabilities:

Lease liabilities	**$'000**
Operating lease commitments before discounting	47,076
Discounted using the lessee's incremental borrowing rate at the date of initial application	(4,246)
Carrying value of lease liability recognised under AASB 16 as at 1 July 2019	**42,830**
Of which are:	
Current lease liabilities	11,135
Non-current lease liabilities	31,695

The following table discloses the impact on opening retained earnings at 1 July 2019:

Opening retained earnings	**$'000**
Remeasurement variance on transition	5,014
Pre AASB 16 lease straight-line provision release	(1,655)
Pre AASB 16 lease incentive provision release	(1,124)
Other minor adjustments	(220)
Deferred tax impact	(605)
Net reduction to opening retained earnings at 1 July 2019	**1,410**

The above has no cash effect to the Group and the changes are for financial reporting purposes only.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period with the exception of leases, as described above.

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 2019. The only exception relates to the adoption of AASB 16 *Leases* where the significant judgements, estimates and assumptions relate to the determination of the Group's incremental borrowing rate and assessment of lease term extension options. These estimates and judgements have been detailed in Note 13 of these financial statements.

In the opinion of the Directors:

(a) the interim financial statements and notes set out on pages 4 to 22 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standard AASB 134 Interim Financial Reporting, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 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: 21 February 2020

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Independent Auditor's Report

To the Members of Vita Group Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Vita Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated balance sheet as at 31 December 2019, 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, 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 Group as at 31 December 2019, 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 Group's financial position as at 31 December 2019 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.

GrantThornton

Independence

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

CDJ Smith
Partner – Audit & Assurance

Brisbane, 21 February 2020

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VITA GROUP LIMITED ABN 62 113 178 519