

Data#3 Limited

ABN 31 010 545 267

Appendix 4D and Interim financial report Half-year ended 31 December 2010

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Results for announcement to the market

Name of entity Data#3 Limited

ABN 31 010 545 267

Reporting period Half-year ended 31 December 2010

Previous corresponding period Half-year ended 31 December 2009

Results				\$'000
Revenues from ordinary activities	up	23 %	to	377,767
Profit from ordinary activities after tax attributable to members	up	68 %	to	7,940
Net profit for the period attributable to members	up	68%	to	7,940

Dividends	Amount per security	Franked amount per security
Current period		
Interim dividend	38.0 cents	100%
Previous corresponding period		
Interim dividend	23.0 cents	100%

The record date for determining entitlements to the dividend is 17 March 2011. The dividend is payable on 31 March 2011.

Brief explanation of the figures reported above

Please refer to the review of operations on page 3.

Net tangible assets per security

	Current period	Previous period
Net tangible asset backing per ordinary security	\$1.58	\$1.17

Directors' report

Your directors present their report on the group consisting of Data#3 Limited and its subsidiaries for the half-year ended 31 December 2010.

1. Directors

The following persons were directors of Data#3 Limited for the entire half-year and up to the date of this report:

Mr R A Anderson
Mr J E Grant
Mr W T Powell
Mr I J Johnston

2. Review of operations

Revenue and gross margin

Our plan for the 2010/11 financial year is to continue to gain market share and deliver organic growth in all areas of the business.

We achieved these objectives in the first half with revenue up 23% to \$377.8 million compared to the previous corresponding period's (pcp) \$306.7 million, well ahead of industry growth, and with growth in all geographic regions and in all areas of specialisation. The aggregated product segment revenue increased by 22% to \$324.8 million and services segment revenue increased by 31% to \$51.6 million.

These results are particularly pleasing considering the ongoing constraints in the external economic environment, and clearly demonstrate that Data#3's focused strategy to expand market share continues to be successful.

The total gross margin increased by 26% to \$54.9 million (pcp: \$43.4 million) and as a percentage of total revenue increased from 14.2% to 14.6%. This was an exceptionally good outcome in a very competitive market environment and reflects an increased proportion of higher margin services revenue.

Expenses and profit

The internal cost ratio (being internal staff costs and operating expense as a percentage of gross margin) improved from 85.4% to 81.3%. This is another exceptionally good outcome, particularly considering the ongoing investment in new internal applications and infrastructure to increase productivity across the entire business and position us for continuing growth. The internal cost ratio is expected to increase in the second half due to increased premises and people-related expense commitments.

Earnings before net interest, tax, depreciation and amortisation (EBITDA) increased by 57% to \$10.7 million (pcp \$6.8 million).

Earnings before net interest and tax (EBIT) increased by 62% to \$10.3 million (pcp: \$6.4 million).

Net profit before tax (NPBT) increased by 71% to \$11.7 million (pcp: \$6.8 million).

Net profit after tax (NPAT) increased by 68% to \$7.9 million (pcp: \$4.7 million). This represented basic earnings per share (EPS) of 51.6 cents, an increase of 68% on the previous corresponding half-year EPS of 30.7 cents.

Net profit margins increased due to the increased proportion of higher margin services and internal productivity improvement resulting from continued business reinvestment.

Cash flow and balance sheet

The net cash flow from operating activities is typically an outflow in the first half due to the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections pre-30 June that generate temporary cash surpluses which subsequently reverse post-30 June when the associated supplier payments occur.

In addition to the seasonality of cash flows, the temporary cash surplus at 30 June 2010 was inflated by the receipt of approximately \$21 million in customer prepayments prior to 30 June 2010 (reflected as movements in unearned income), contributing to the \$66.8 million operating cash inflow in the second half of 2009/10 and the \$64.3 million cash balance at 30 June 2010. The net operating cash outflow of \$54.8 million in the current period includes the payments associated with the temporary cash surpluses at 30 June 2010.

Cash flow from investing activities was a net outflow of \$3.6 million reflecting payments for property and equipment, of which \$3.4 million related to the fit-out of the new Brisbane office.

Cash flow from financing activities was a net outflow of \$5.1 million composed solely of dividend payments.

The key trade receivables indicator of average days' sales outstanding (DSOS) remained ahead of target and lower than in the previous corresponding period. This result demonstrates that our additional investment to strengthen our collection resources has effectively countered the tendency for customers to extend their payment cycles in the difficult current economic environment.

Total net assets increased by 11% over the half year and total net tangible assets increased by 16%. Our balance sheet remains conservative with no borrowings at 31 December 2010.

Directors' report (continued)

3. Dividends

The directors have declared a fully franked dividend of 38.0 cents per share payable on 31 March 2011, an increase of 65% on the previous corresponding dividend of 23.0 cents per share.

4. Auditor's independence declaration

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

5. Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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



R A Anderson
Director

Brisbane
21 February 2011

Auditor's independence declaration

As lead auditor for the review of the financial report of Data^{#3} Limited for the financial half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Data^{#3} Limited and the entities it controlled during the period.

JOHNSTON RORKE
Chartered Accountants



R C N Walker
Partner

Brisbane, Queensland
21 February 2011

Consolidated statement of comprehensive income

for the half-year ended 31 December 2010

	Half-year	
	2010 \$'000	2009 \$'000
Revenue		
Sale of goods	324,762	266,753
Services	51,644	39,416
Other	1,361	500
	377,767	306,669
Other income	41	-
Expenses		
Changes in inventories of finished goods	(1,685)	553
Purchase of goods	(292,653)	(243,845)
Employee and contractor costs directly on-charged (cost of sales on services)	(19,819)	(16,762)
Other cost of sales on services	(7,390)	(2,702)
Other employee and contractor costs	(36,823)	(31,097)
Telecommunications	(719)	(640)
Rent	(2,297)	(2,040)
Travel	(1,143)	(862)
Professional fees	(459)	(372)
Depreciation and amortisation	(345)	(445)
Finance costs	(20)	(36)
Other	(2,791)	(1,599)
	(366,144)	(299,847)
Profit before income tax expense	11,664	6,822
Income tax expense	(3,724)	(2,096)
Net profit for the half year	7,940	4,726
Other comprehensive income for the half year, net of tax	-	-
Total comprehensive income for the half year	7,940	4,726
Profit is attributable to:		
Owners of Data#3 Limited	7,940	4,726
Non-controlling interests	-	-
	7,940	4,726
Basic earnings per share	51.6c	30.7c
Diluted earnings per share	51.6c	30.7c

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

Consolidated balance sheet

as at 31 December 2010

	31 December 2010	30 June 2010
	\$'000	\$'000
Current assets		
Cash and cash equivalents	849	64,335
Trade and other receivables	90,569	86,353
Inventories	7,175	9,006
Other	2,190	1,346
Total current assets	100,783	161,040
Non-current assets		
Property and equipment	3,990	773
Deferred tax assets	2,082	1,532
Intangible assets	4,581	5,138
Total non-current assets	10,653	7,443
Total assets	111,436	168,483
Current liabilities		
Trade and other payables	72,047	110,252
Current tax liabilities	2,416	3,285
Provisions	1,203	1,188
Other	4,924	26,540
Total current liabilities	80,590	141,265
Non-current liabilities		
Provisions	935	840
Other	966	292
Total non-current liabilities	1,901	1,132
Total liabilities	82,491	142,397
Net assets	28,945	26,086
Equity		
Contributed equity	8,278	8,278
Retained earnings	20,667	17,808
Total equity	28,945	26,086

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 2010

	Number of Ordinary Shares	Contributed Equity	Retained Earnings	Total Shareholders' Equity
	'000	\$'000	\$'000	\$'000
2010				
Balance at 30 June 2010	15,397	8,278	17,808	26,086
Net profit for the half year	-	-	7,940	7,940
Other comprehensive income for the half year, net of tax	-	-	-	-
Total comprehensive income for the half year	-	-	7,940	7,940
Payment of dividends	-	-	(5,081)	(5,081)
Balance at 31 December 2010	15,397	8,278	20,667	28,945
2009				
Balance at 30 June 2009	15,397	8,278	15,055	23,333
Net profit for the half year	-	-	4,726	4,726
Other comprehensive income for the half year, net of tax	-	-	-	-
Total comprehensive income for the half year	-	-	4,726	4,726
Payment of dividends	-	-	(4,619)	(4,619)
Balance at 31 December 2009	15,397	8,278	15,162	23,440

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

Consolidated cash flow statement

for the half-year ended 31 December 2010

	Half-year	
	2010 \$'000	2009 \$'000
Cash flows from operating activities		
Net profit after income tax	7,940	4,726
Depreciation and amortisation	345	445
Provision for doubtful debts	112	112
Loss on disposal of property and equipment	130	-
Impairment of intangible assets	500	-
Other	111	17
Changes in operating assets and liabilities:		
(Increase)/decrease in trade receivables	(1,248)	27,197
(Increase)/decrease in inventories	1,685	(481)
Increase in other operating assets	(3,924)	(863)
Increase in net deferred tax assets	(550)	(52)
Decrease in trade payables	(37,745)	(48,028)
Decrease in unearned income	(21,725)	(1,020)
Increase/(decrease) in other operating liabilities	249	(4,775)
Increase/(decrease) in current tax liabilities	(869)	701
Increase in liability for employee benefits	219	128
Net cash outflow from operating activities	(54,770)	(21,893)
Cash flows from investing activities		
Payments for plant and equipment	(3,635)	(92)
Payments for software assets	-	(75)
Net cash outflow from investing activities	(3,635)	(167)
Cash flows from financing activities		
Dividends paid	(5,081)	(4,619)
Net cash outflow from financing activities	(5,081)	(4,619)
Net decrease in cash and cash equivalents held	(63,486)	(26,679)
Cash and cash equivalents at the beginning of the reporting period	64,335	27,957
Cash and cash equivalents at the end of the reporting period	849	1,278

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

Notes to the consolidated financial statements

for the half-year ended 31 December 2010

Note 1. Significant accounting policies

Basis of preparation of interim financial report

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

This interim financial report does not include all of the notes of the type normally included in an annual financial report and accordingly should be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Data#3 Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted in this interim financial report are the same as those applied in the previous financial year and the corresponding interim reporting period.

Note 2. Dividends

Details of dividends paid during the current period or the previous corresponding period are as follows:

Record date	Payment date	Type	Amount per security	Franked amount per security	Total dividend \$'000
15/9/2009	29/9/2009	Final	30.0 cents	30.0 cents	4,619
17/3/2010	31/3/2010	Interim	23.0 cents	23.0 cents	3,542
16/9/2010	30/9/2010	Final	33.0 cents	33.0 cents	5,081

Dividends not recognised at the end of the half-year

Since the end of the half-year, the directors have recommended the payment of an interim dividend of 38.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed interim dividend expected to be paid on 31 March 2011 out of retained earnings at the end of the half-year, but not recognised as a liability at the end of the half-year, is \$5,851,000.

Note 3. Segment information

The group's business is conducted primarily in Australia. The group's management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed to an operating segment based on the type of product or service provided to the customer. Revenue from customers domiciled in Australia comprised 99% of external sales for the half-year ended 31 December 2010 (2009: 99%).

The company has identified two reportable segments, as follows:

- Product - providing hardware and software for our customers' desktop, network and data centre hardware and software infrastructure; and
- Services - providing professional and managed services in relation to the design, implementation and operation of ICT solutions, workforce recruitment and consulting.

Summarised financial information by segment for the half-years ended 31 December 2010 and 2009 is set out in the following table.

Notes to the consolidated financial statements (continued)

for the half-year ended 31 December 2010

Note 3. Segment information (continued)

	Product		Services		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue						
Total revenue	324,768	266,779	56,900	42,276	381,668	309,055
Inter-segment revenue	(6)	(26)	(5,256)	(2,860)	(5,262)	(2,886)
External revenue	324,762	266,753	51,644	39,416	376,406	306,169
Unallocated corporate revenue:						
Interest					1,361	500
Total revenue					377,767	306,669
Segment result						
Segment profit	11,551	7,820	4,885	3,530	16,436	11,350
Unallocated items						
Interest revenue					1,361	500
Other income					41	-
Other employee and contractor costs					(3,976)	(3,271)
Rent					(772)	(627)
Depreciation and amortisation					(318)	(353)
Other					(1,108)	(777)
					(4,772)	(4,528)
Net profit before income tax					11,664	6,822

Note 4. Property and equipment

In November 2010 the group relocated its head office and completed a substantial fit-out at a cost of \$3,440,000.

Note 5. Subsequent events

No material and unusual events have occurred after the end of the half-year that could affect the financial position and performance of Data#3 Limited or any of its subsidiaries.

Note 6. Contingent liabilities

There have been no material changes in contingent liabilities from those disclosed in the June 2010 annual report.

Directors' declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 6 to 11 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Data#3 Limited will be able to pay its debts as and when they become due and payable.

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



R A Anderson
Director

Brisbane
21 February 2011

Independent auditor's review report to the members of Data#3 Limited

Report on the interim financial report

We have reviewed the accompanying interim financial report of Data#3 Limited, which comprises the consolidated balance sheet as at 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the half-year.

Directors' Responsibility for the Interim Financial Report

The directors of the company 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 control 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 interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Data #3 Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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*.

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 Data#3 Limited is not in accordance with the *Corporations Act 2001* including:

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

JOHNSTON RORKE
Chartered Accountants



R C N Walker
Partner

Brisbane, Queensland
21 February 2011