

ASX Announcement

25 February 2010

Results for the six months ended 31 December 2009

Vita Group Limited (ASX: VTG) today announced its results for the six months ended 31 December 2009 (1H10). The table below summarises Vita Group's financial performance.

(\$m unless otherwise stated)	1H10	1H09 ¹	Change
Operating revenue	144.9	151.0	(4)%
Gross operating margin ²	56.5	54.6	3%
Gross operating %	39.0%	36.2%	
Earnings before interest, tax, depreciation and amortisation	13.5	8.8	52%
Earnings before interest and tax	10.7	6.3	69%
Net profit after tax	7.5	4.3	75%
Earnings per share (cents per share)	5.31	3.03	75%

(1) Accounting treatment relating to extended warranties has led to a restatement of prior year comparatives (see Note 2 of Financial Statements for six months ended 31 December 2009). The adjustments had the following affect on 1H09 comparatives – EBT up \$0.9m, tax expense up \$0.3m, NPAT up \$0.6m, EPS up 0.45 cents per share.

(2) Includes gross margin on handset sales, Telstra incentives and commissions, and other revenue.

Vita Group's results for the first half of the 2010 financial year showed solid improvement. Despite operating revenue being slightly down (4%) to \$144.9 million:

- EBITDA improved to \$13.5 million (up 52%) reflecting the impact of the advance Telstra payment. On a normalised basis EBITDA was up 5% to \$6.6 million;
- EBIT increased to \$10.7 million (up 69%); and
- Net profit after tax moved up to \$ 7.5 million (up 75%).

The reduction in operating revenue reflects the store optimisation programme, which reduced the number of stores by 19 as compared to the same period last year. This flowed through to a 22% reduction in headcount across the Group. The tightening of expenses and other operating efficiencies, combined with the advance Telstra payment, produced a positive set of results.

On 27 August 2009, Fone Zone renewed its dealer agreement with Telstra for another five years with the potential for up to four additional one year extensions, and was appointed a Master Licensee for Telstra's T[life] stores. Under this agreement the previous trailing commission arrangement was replaced by an increased upfront commission structure, rewarding the broader product suite offered in T[Life] stores.

In November 2009, Vita Group received an initial payment of \$12 million in respect of trailing commissions earned under the old agreement. The payment received included an advance payment of \$9.4 million being a portion of trailing commissions that would have otherwise been earned by the company beyond 31 December 2009.

The rollout of the initial 25 T[life] stores under the new agreement is on track, with 5 T[life] branded stores opened as at 31 December 2009. Vita Group also acquired two Telstra licensed stores, taking the Company's total Telstra branded stores to 12. The financial performance of the recently opened T[life] stores has been at the higher end of Vita Group's internal expectations, and has confirmed the more profitable and sustainable business model of T [Life] stores for the Group. In addition, as expected, due to the upfront commission structure, the profitability of new stores is being achieved sooner.

Next Byte traded in line with expectations, with the benefits from previous operating improvements offsetting lower revenues following three store closures as compared to the same period last year.

The Group reduced debt by \$11.6 million, with gearing, being net debt / (net debt + equity), at 31 December 2009 of 8.7%. With a strengthened balance sheet, Vita Group is committed to continue rolling out the Group's growth strategy. Vita Group plans to conserve cash, and as a result has resolved to not declare an interim dividend for this half.

Commenting on the 1H10 results, David McMahon, Joint Chief Executive Officer said that the first half of the 2010 financial year had been a turning point for the Company.

"The first half of the 2010 financial year has been a period of significant transition for Vita Group. The key development over the past six months was the finalisation of Vita Group's new Dealer arrangement with Telstra. This will see a significant positive transformation of the company over the next few years.

"The initial roll-out of the new T[life] strategy is on track, and we anticipate completing the roll-out of the first phase of 25 T[life] stores by the end of November 2010. In addition, the profitability of our new T[life] stores is at the higher end of internal expectations.

"With Vita Group's store optimisation programme close to completion, the Fone Zone chain is back to business as usual. Fifty-three stores have been closed over the past two years, with one relocated and three new stores opened. The changes, together with the operational improvements put in place, have stabilised Fone Zone store numbers and better positioned the business for the future.

“We continue to work on the turn around of the performance of Next Byte. We are responding by providing an enhanced retail experience, whilst focusing on the service and corporate segments where Next Byte can truly differentiate itself.

“Over the past two years we have had a strong focus on reducing costs, streamlining operations and achieving operating efficiencies. We are now seeing the benefits from these initiatives starting to flow through into earnings.”

Outlook

Commenting on the outlook for Vita Group, Mr McMahon said “Vita Group’s key focus over the remainder of the 2010 financial year will be on the roll-out of the T[life] stores and enhancing the profitability of both Fone Zone and Next Byte. We will continue to implement operational improvements within our retail formats to further grow earnings and position our stores for growth.

“The continued debt reduction, improved trading performance, pipeline of new store opportunities, and expense reductions combine to give us a positive outlook for the second half, and Vita Group reaffirms its 2010 full year guidance of EBITDA in the range of \$17 million to \$18 million.”

Further enquiries:

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About Vita Group

Vita Group’s four brands – Fone Zone, T[life], Next Byte and One Zero – operate in clearly defined retail segments and share commonality toward premium service and solution focussed selling. All four retail formats are built on a solid, customer service foundation, each offering a unique retail experience for Australian consumers. Further information can be found at www.vitagroup.com.au