

Chairman's Address

**to the AGM of Vita Group Limited
6 November 2008**

I would like to report to you on the performance of the Vita Group during the 2008 financial year, and tell you about some of our more recent achievements and our plans for the future.

FY08 was a year of strong growth for the Vita Group. Revenue increased by 57% on the previous financial year to \$311.2 million and net profit after tax increased by 14% to \$7.9 million.

These results were under-pinned by the acquisition in September 2007 of Next Byte, Australia's largest Apple premium reseller, with a total of 17 stores at the time of acquisition. The acquisition was an integral part of our strategy to diversify the company's revenue sources and to capitalise on converging Information and Communications Technologies.

Since acquiring Next Byte, a number of smaller acquisitions have added a further 6 Next Byte stores, bringing the total to 23. The integration of Next Byte into the broader Vita Group is progressing as planned, and we are now seeing the added benefit of introducing certain Apple products into our Fone Zone stores.

In April 2008 we changed the name of the Company from Fone Zone Group to Vita Group, to reflect the fact that we were no longer solely a telecommunications company, and recognising that we intend to diversify the business further in the years ahead.

We began FY08 with strong sales and improved operating margins. In the second half of the year, weaker economic conditions and a slow-down in consumer spending had an adverse effect on results and in June we revised our outlook for the full year. I am pleased to say that our results were ahead of outlook with net profit after tax, as mentioned earlier, of \$7.9 million.

In response to the current uncertain market conditions, we have accelerated our store optimisation program. The program involves assessing the future of under-performing stores, relocating some stores, finding new store locations and rebranding some Fone Zone stores to Next Byte. In preparation for these changes we have taken substantial charges and provisions totalling \$3.1 million into our FY08 accounts.



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The dividend for the second half of the year was declared at 1 cent, fully franked, bringing the total dividend for the year to 3.5 cents, consistent with our dividend policy. Earnings per share for the year grew to 5.74 cents.

Our main priorities for the current year are to complete the store optimisation program for Fone Zone, One Zero and Next Byte stores, and to complete the integration of Next Byte into the Vita Group. Improving the location of stores will drive revenue growth and enable us to capitalise on market opportunities. Additionally, significant cost and efficiency benefits from integrating the Next Byte business are expected to improve the overall profit margin of the Group.

In line with the general slowdown in the retail sector, like-for-like sales for the Group year to date have declined by 10%, compared to the same period last year. This slowing demand has been offset partly by the contribution from Next Byte, acquired in September 2007, which remains an exciting business, promising significant expansion opportunities with a market leading product.

We anticipate EBITDA for the first half of this financial year will be 10-15% lower than the prior corresponding period and, as will be detailed later, net profit after tax is expected to be 20-25% lower for the first half of this financial year compared to the prior year. The lower post-tax profit reflects higher interest charges in this period, resulting from additional debt incurred to acquire the Next Byte business.

To counter the decline in sales, Vita Group continues to drive productivity improvements and manage costs in both the Next Byte and Fone Zone businesses. Our Fone Zone store optimisation program is progressing as planned and will strengthen the company over the longer term. In addition, we will achieve cost savings in Next Byte from store operating improvements and by integrating Next Byte's back-office functions into those of the rest of the Vita group. We plan to grow sales by increasing sales from existing stores and targeted new store openings.

We expect the benefits of these programs to have a positive impact on our results for the second half of this year. However, given the trading uncertainties affecting most retailers at present, it is not practical to be more specific about trading performance in the second half.

This will be my last AGM as Chairman of your Company and I intend to retire from the Board at the end of the meeting. I would like to thank all of our Shareholders for your support during my time as Chairman.

Subject to his re-election as a Director by Shareholders at this AGM, the Board has decided that Dick Simpson should take my place and I believe he will be a most capable Chairman. Dick has been a Director of the Company since 2005. His broad business experience includes extensive knowledge of Telecommunications and Information Technology, two areas of great importance to the Vita Group, having been a senior executive in both Optus and Telstra, and IT companies, IBM and Unisys.

I would like to express my thanks and appreciation to my fellow Directors for their unfailing support and good humour. It has been a terrific experience and a great privilege to have worked with you.

I would like to finish by thanking all our employees for their efforts during the year and for their hard work and dedication that delivered the revenue and profits achieved in FY08. It has been an inspiring effort from all of you – thank you.