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New Image tackles discounting and invests for growth

New Zealand health and wellness products manufacturer and distributor New Image Group has acted to stop discounting of its lead product Alpha Lipid Lifeline in Malaysia by some large direct sellers.

The discounting has impacted on the morale of its smaller distributors in that country and, along with the effects of the global financial crisis and strong New Zealand dollar, to a lesser extent the group's bottom line for the first six months of the financial year.

New Image (NZX: NEW) reported unaudited, consolidated revenue of \$37.3 million for the six months to December 31, 2010, compared with \$40.1 million for the same period the previous year,

Earnings before interest, tax, depreciation and amortisation (EBITDA) were \$4.8 million, compared with \$5.7 million the previous year. At the end of December, New Image had \$16.4 million in cash sitting in banks offshore awaiting repatriation when exchange regulations are met.

Executive chairman Graeme Clegg says the popularity of the Alpha Lipid Lifeline product in Asian countries, especially Malaysia, had made it a target for discounters. The company's actions to help regain control of the distribution channel had resulted in an upturn in sales last month.

The company believes its second quarter revenues and profitability will return to the same levels as the previous year.

Mr Clegg says it was also to be expected that New Image would go through a period of consolidation after rapid growth from full year revenues of \$10.82 million in 2006 to almost \$100 million three years later.

He says the discounting problem in Malaysia had been compounded by the fact that key distributors there have been helping drive the opening of new country markets. That drive had been successful as was demonstrated by the fact that Taiwan and Malaysia had contributed 83.9% of sales in the first six months in 2010 and 77.8% in this half year.

Taiwan continues to perform strongly with sales up \$16.3 million in the half, compared with \$15.4 million in the same period the previous year.

Mr Clegg says in a global environment of growing food shortages New Image is poised to quickly resume its growth. The group has also strengthened its position in the high value, dairy biotech

sector with investment in research and development, marketing and manufacturing and especially people.

New Image carried out a \$1.5 million upgrade of its Auckland production and distribution facilities at Avondale during the half. This was to cope with increasing volumes of contract work and the opportunity for New Image to enter the infant formula market in East Asia. Total sales from this channel of \$4.8 million were generated in the six months to December 31 (HY10 \$3.3 million).

The plant upgrade is now complete and includes the addition of a high tech, automated can filling line with nitrogen flushing to cater for the demand for fortified infant formula and contract work. New equipment is being installed for additional capabilities including can manufacturing, high speed form and fill powder packing, single serve pouch-filling, encapsulating and stick sachets. The company now offers a unique complete service covering capabilities in formulation, science, manufacture, and marketing of high value dairy and powder based products.

The acquisition of an interest in New Zealand natural skin care company Living Nature was announced in November 2010, with the shareholding to go to 50.1% after March 31, 2011. This acquisition will accelerate the development of a second generation of skin care products for the company's direct selling channel. Trading results for the quarter to June 30, 2011 will be consolidated in to New Image Group's accounts.

The acquisition of IP and patents for the sleep enhancing milk peptide product from the biotechnology company Somnaceutics was announced in December 2010. This follows the successful trial of the product in Taiwan.

New Image's team of scientists is also carrying out research into the beneficial effects of colostrum and other natural extracts on adult stem cells. A growing number of testimonials from elite athletes and people with a range of health challenges for its products Colostem and Cellworx are encouraging further development.

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New Image Group

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