

28 October 2005

## Chairman's Address to the Annual Meeting

2005 represents another milestone in the history of Nuplex Industries. The addition of the Coating Resins business of Akzo Nobel to the group ranks, for strategic importance, alongside the acquisition of Australian Chemical Holdings in 1998, positions us for the next stage of our earnings growth.

In reviewing the risks associated with our business profile over the past two to three years we recognised that technology and our geographic concentration in Australasia were major threats. Our ability to license technology was limited as the world's resin and client industries rationalised and globalised while our internal development resources were unable to be readily refreshed from the local market due to a lack of depth in polymer related industries. At the same time we were approaching optimum market shares in our traditional markets that were already mature.

Initial Asian investments in China in 2004 and Vietnam in the late 90's were seen as a good start in entering growth markets but they will take time to reach their full potential. Neither market offered us any technology advantage as Asia tends to be a technology follower rather than an innovator. In the short term, income derived from these markets would not support the level of R&D expenditure we considered necessary for our future needs.

The acquisition of the Coating Resins business gave us the opportunity to reduce the risks to future earnings that we had identified.

On the technology front, it brought into the group a world class R&D resource and a volume of business that, when consolidated with the core Nuplex volume, created the critical mass necessary to fund our perceived future development needs. Europe and America represent the principal technology leadership in our industry. The strong position the business holds in key segments in this market helps to ensure that our R&D programmes are relevant and focused on what we understand the future needs of the market to be.

The acquisition also provided us with increased access to the Asian market adding operations in Malaysia, Indonesia, Thailand and the Shanghai region of China that, with our existing plants in Vietnam and Guangzhou, gives us very good and unique coverage of this fast growing region.

The board recognises that having addressed key business risks with this move, we have added a new range of potential risks in spreading our activities over such a wide geographical area. We are however pleased to note that, as with most of our major acquisitions, we have also gained a very strong team of internationally experienced and committed managers. Added to our existing team, they give your directors confidence that we will be able to maintain the highest level of management expertise and Corporate Governance across the expanded group.

The Board has been considering the matter of succession planning in relation to directors who will retire over the next few years. A programme of orderly replacement is intended so that experience and knowledge of the business is maintained and new directors have adequate time to develop the depth of understanding of this diversified company necessary to fulfil their responsibilities. With our large exposure to the Australian market your board has decided that an additional director will be appointed from that region. We are seeking a person with the balance of experience to add to the skill base of the board who is known and respected by Australian investors and anticipate making an announcement in relation to this within the next quarter. This appointment would also be expected to increase the support for Nuplex shares by Australian investors.

You will have noted that we have moved away from limiting our dividend to 50% of the normalised net surplus, recognising the strong cash flow of the business going forward. At the same time we have reinstated the Dividend Reinvestment Plan for the benefit of shareholders who wish to increase their investment. We are very pleased to note that the option was taken up by 36.5% of the shareholding. This level of support strengthens our balance sheet and the ability to make bolt on acquisitions as they become available. This has been a very successful growth strategy for our core businesses and will continue to be used where we are confident that it will add to shareholders wealth.

New Zealand operations represent around 13% of future sales revenues and generate around 20% of net surplus. With a high level of profit payout as dividend, it was inevitable that our reserves of imputation credits from tax paid in New Zealand would eventually be exhausted. The next interim dividend will be the last for which 100% imputation credits will be available for New Zealand shareholders. While I am sure that this is disappointing to many of you, it is worth remembering that dividends for NZ shareholders, and the fundamental value of our shares, have been, and will remain much higher than if we had stayed limited to the New Zealand market.

Australian based shareholders will for the foreseeable future continue to enjoy full imputation with significant franking credits already available and profits from this market currently more than half of group total.

Inevitably this will lead to the question that is often asked as to whether Nuplex will remain a New Zealand domiciled company. To date, New Zealand investors have given strong support to the company, providing new investment finance when required, showing a high level of appetite to maintain their investment level through the dividend reinvestment plan, and demonstrating loyalty over close to 40 years. The issue for the board therefore is what is in the best interests of shareholder wealth. While we obviously continue to monitor the advice of various market commentators, consultants and professional advisors, the board currently remains committed to the New Zealand market. We will however maintain a watching brief on all opportunities that could provide advantage to existing shareholders.

It is worth noting that your board remains firmly of the view that the structure of New Zealand Tax law imposes high cost on companies domiciled here with extensive international operations, relative to Australia. In particular, the requirement to lodge tax returns in New Zealand for many jurisdictions in which we operate, is a significant compliance cost. Further, tax concessions provided by other governments in support of investment in their countries, are effectively eliminated through the requirement to bring total tax paid to the New Zealand corporate rate of 33%. This matter has been raised on several occasions with appropriate members of the government.

The company is well positioned to move forward with the implementation of the NZ version of the International Financial Reporting Standard that becomes mandatory in the current Financial Year. The main difference you will notice in reporting from the December half-year result will be the removal of the automatic write down of goodwill over 15 years. In future we will have to test our carrying value of goodwill and write down any impairment in value. If there is no impairment then there is no write down. The full impact on the 2004/5 result, if it had been presented under the new rules, is outlined on page 77 and 78 of the Annual Report.

Raw material pricing in our key resin business remains at higher than normal levels but margins are slowly recovering as is demand for our products. This, together with a full year's contribution from Coating Resins, gives us an expectation that we will return to earnings per share growth with our current forecast in line with market consensus of 48 cents a share before abnormal items and around \$2 million amortisation.

Fred Holland  
Chairman