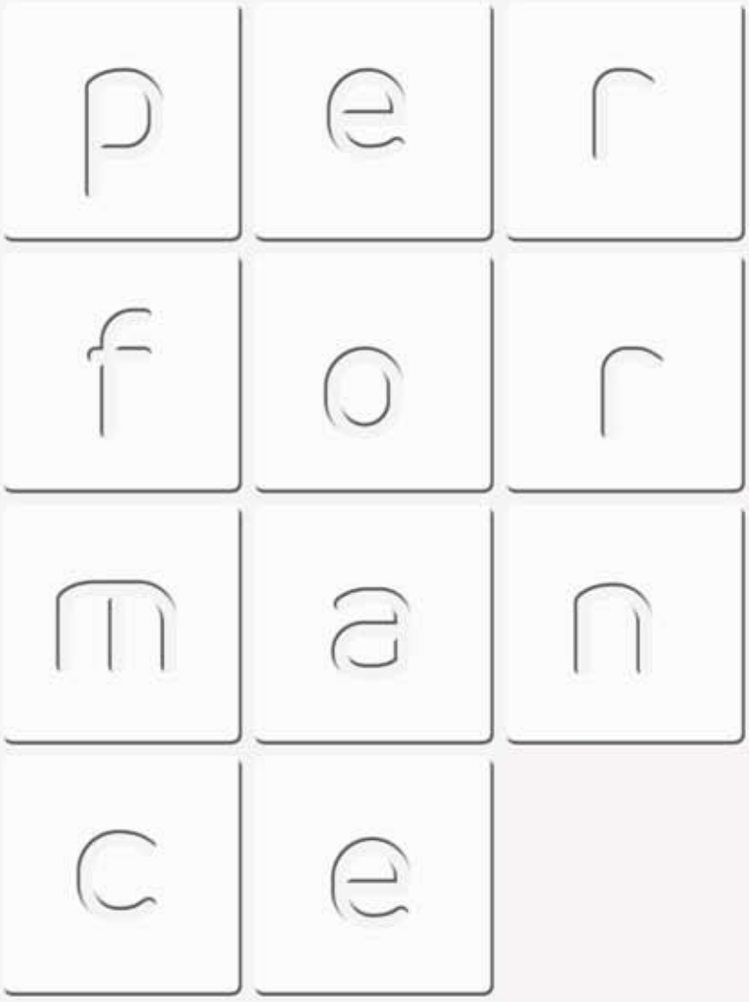


nuplex®

2006 annual report

OUR GROWTH HAS BEEN SUBSTANTIAL. NOW, WITH OUR MOST RECENT INTERNATIONAL ACQUISITION COMPLETE, IT'S TIME TO FOCUS ON GETTING ALL THE PIECES OF OUR BUSINESS WORKING TOGETHER AS EFFICIENTLY AS POSSIBLE.

THAT WAY WE'LL GO ON GROWING.

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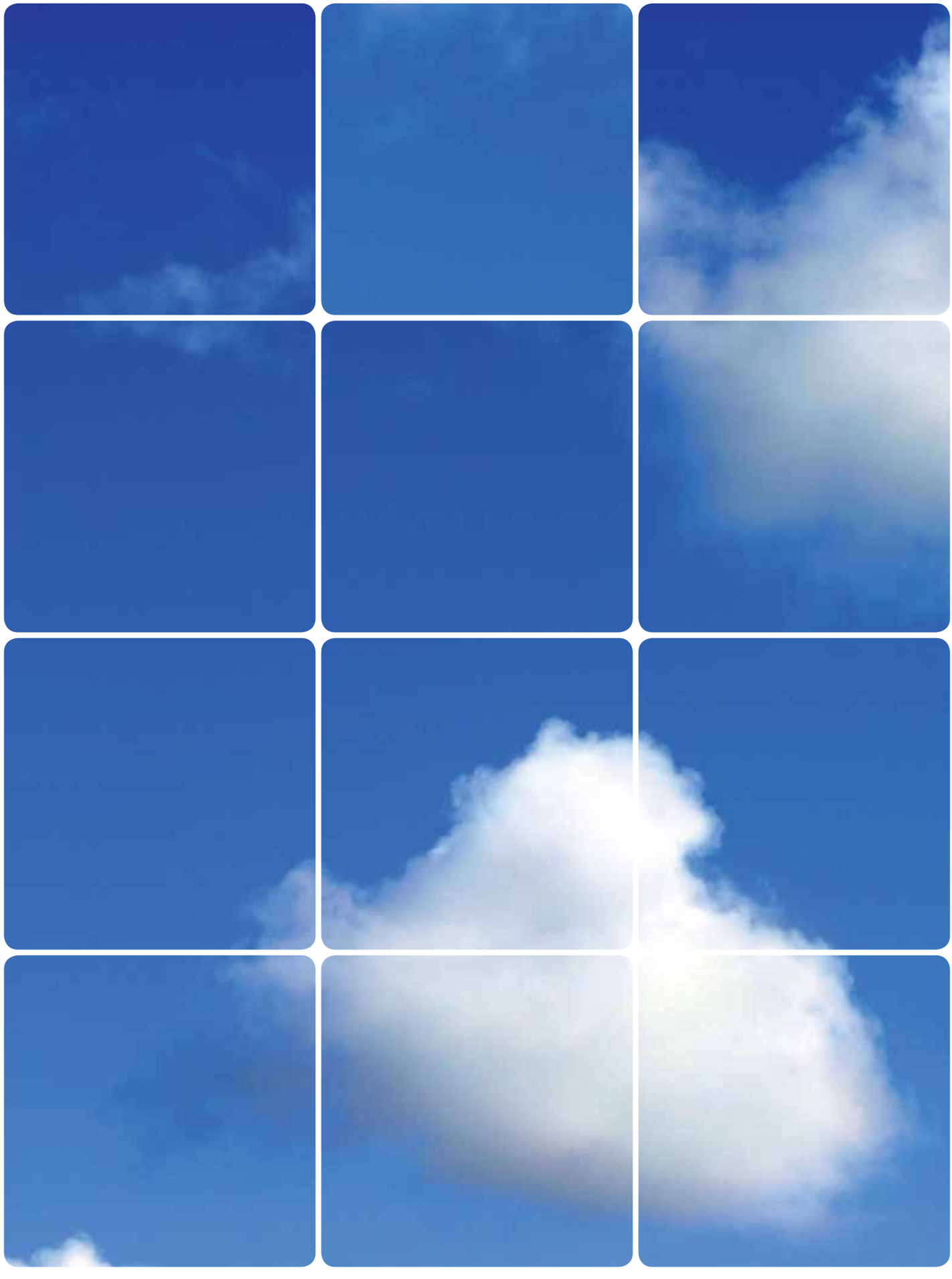
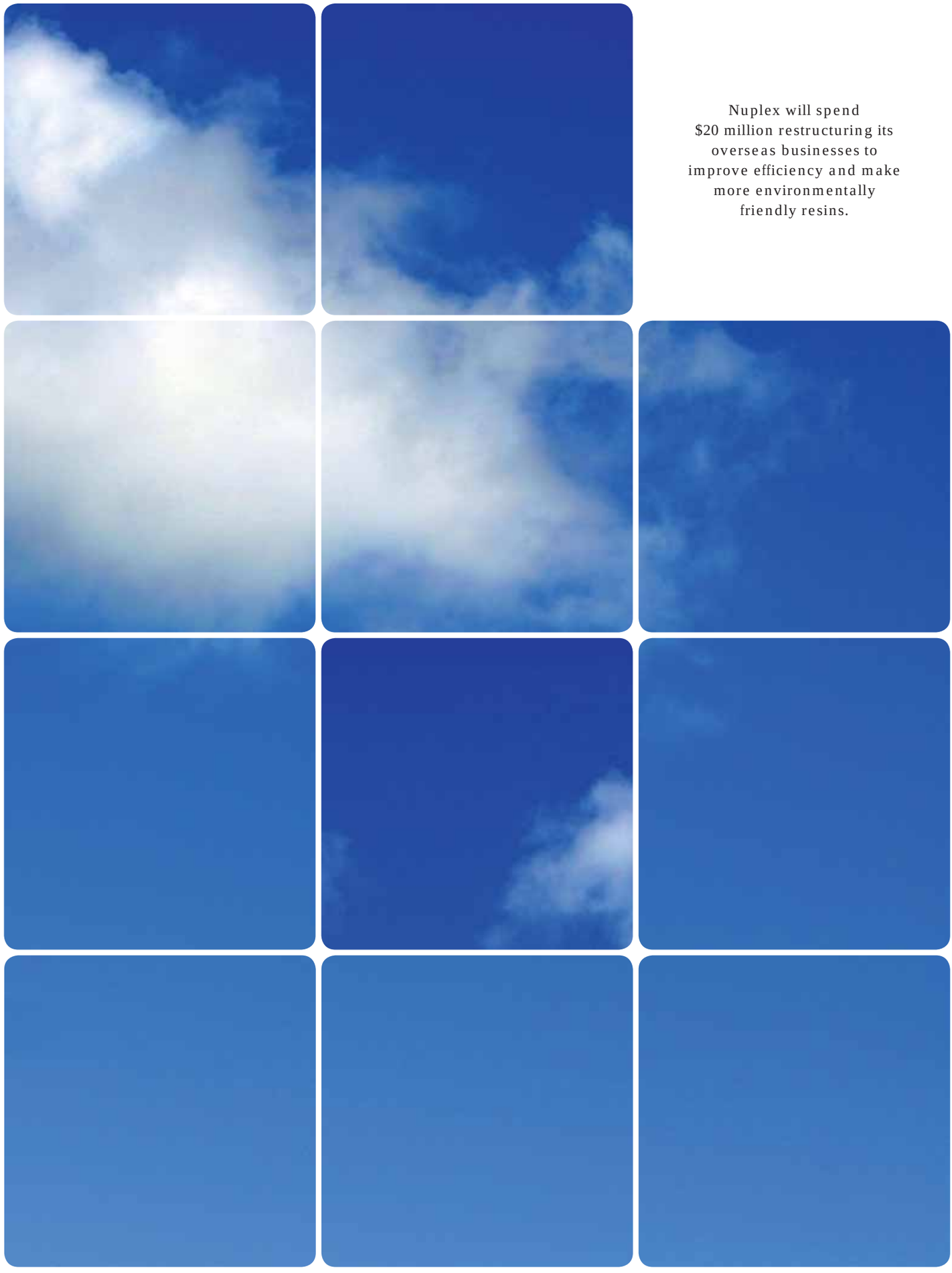


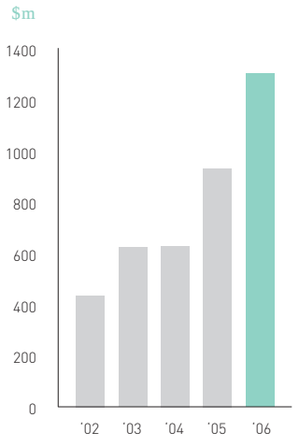


Nuplex will spend $20 million restructuring its overseas businesses to improve efficiency and make more environmentally friendly resins.

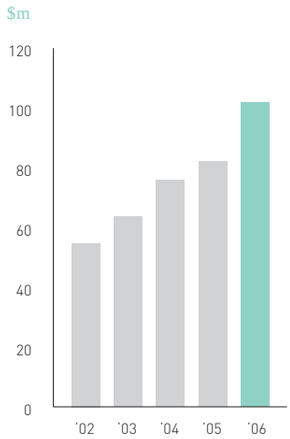
# FINANCIAL HIGHLIGHTS

| | 2006 | 2005 |
|---|---|---|
| **Resins** | | |
| Sales | 1,003,870 | 662,631 |
| EBITDA | 86,308 | 61,000 |
| **Specialties** | | |
| Sales | 283,716 | 236,056 |
| EBITDA | 14,092 | 13,837 |
| **Environmental Services** (sold 30 November 2005) | | |
| Sales | 13,337 | 29,860 |
| EBITDA | 3,035 | 6,917 |

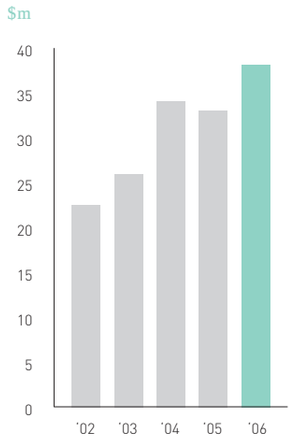
Group Sales



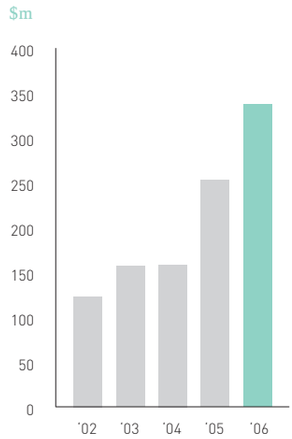

EBITDA




Operating Profit




Equity



- 50 YEARS OF GROWTH AS A PUBLIC COMPANY
- SUBSTANTIAL LIFT IN DIVIDEND AND PAYOUT RATIO
- SIGNIFICANT SHARE PRICE INCREASE
- A FULL YEAR OF RESULTS FROM THE RESINS BUSINESS ACQUIRED FROM AKZO NOBEL IN JANUARY 2005
- EXCELLENT GROWTH IN ASIA AND CHINA
- COMMENCEMENT OF SIGNIFICANT BUSINESS RESTRUCTURING IN EUROPE
- MAJOR REALIGNMENT OF BUSINESS PORTFOLIO
- COMMERCIALISATION OF NEW TECHNOLOGIES ACROSS MANY BUSINESSES

The bigger we become, the more we must maintain focus. Two reporting segments now accurately define our business.

## RESINS

**Business and performance profile:** The largest Nuplex business supplies key manufacturing inputs to the paint, printing ink, adhesive, textile, construction, paper and composites industries. It manufactures a broad range of resins in plants in New Zealand, Australia, Vietnam, Malaysia, Indonesia, China, The Netherlands, United Kingdom, Brazil and the United States, and exports globally. The business also distributes functional raw materials that are used in conjunction with resins in customers' formulations and processes.

- 78% of total business
- 2006 sales $1,004m
- 2006 EBITDA $86m

| | |
|---|---|
| Coating resins | Paints<br>Printing inks<br>Textiles<br>Construction<br>Polish |
| Functional additives | Coatings<br>Plastics |
| Adhesive resins | Woodworking<br>Packaging<br>Construction |
| Composite resins | Fibreglass products |
| Reinforcements | Fibreglass products |
| Paper resins and process chemicals | Tissue paper<br>Fine paper<br>Packaging paperboard |

**Looking ahead:** Generally flat conditions are anticipated in mature markets in Australasia, Europe and the US, while growth in Asia will continue. South East Asia should reflect ever-increasing living standards through higher demand for our products while China is destined to maintain its extraordinary performance. Raw material cost rises and subsequent price recovery will be the major issue for the businesses. All loss-making operations are expected to be well advanced in their recovery.

## SPECIALTIES

**Business and performance profile:** This business is complementary to the Resins Business as a distributor of functional technical raw materials used as inputs to manufacturing processes in New Zealand and Australia.

These include high compliance markets such as food, nutrition, healthcare and technical industries such as plastics, agriculture, rubber, construction and the general chemical industry.

It acts as agent for some of the world's leading raw material suppliers, offering manufacturers access to the world's latest technology and best materials.

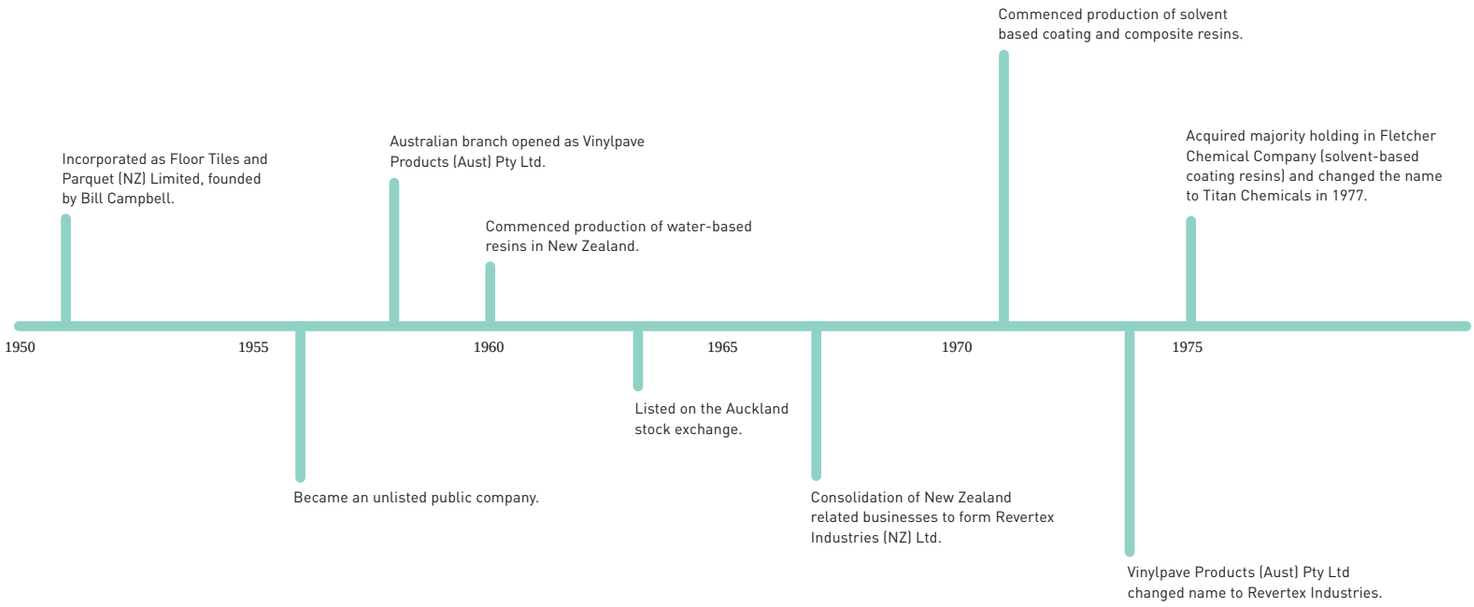
It is also a key provider of specialty construction materials, such as functional flooring systems to industry and commerce and lightweight cladding systems to residential and commercial construction.

- 22% of total business
- 2006 sales $284m
- 2006 EBITDA $14m

| | |
|---|---|
| Food ester, additives & ingredients | Bakery<br>Manufactured food preparations |
| Actives & excipients | Personal care<br>Pharmaceutical & neutraceutical preparations |
| Laboratory & analytical chemicals | Education & industry laboratories |
| Surfactants | Agriculture & industrial<br>Personal care<br>Explosives |
| Masterbatch | Plastic extrusion & moulding |
| Dyes & textile auxiliaries | Textile manufacturing & colouring |
| Metal soaps | Tyre manufacture<br>Plastic protection |
| Polymers & rubbers | Rubber & plastic products |
| Chemicals & chemical intermediaries | Coating industry<br>General chemical industry |
| Insulclad cladding systems | Residential and commercial building |
| Resilient flooring & associated products | Commercial, industrial & institutional floor coverings |
| Resin floors | Shopping malls<br>Corrosion resistant flooring |
| Building products | Waterproofing<br>Functional adhesives & finishes |

**Looking ahead:** An improved outlook for commercial and industrial flooring projects is likely to be offset by continued weakness in the housing sector. Demand for distributed products is expected to be steady while the programme to discontinue operations on the Seven Hills site should see activities cease there by year end.

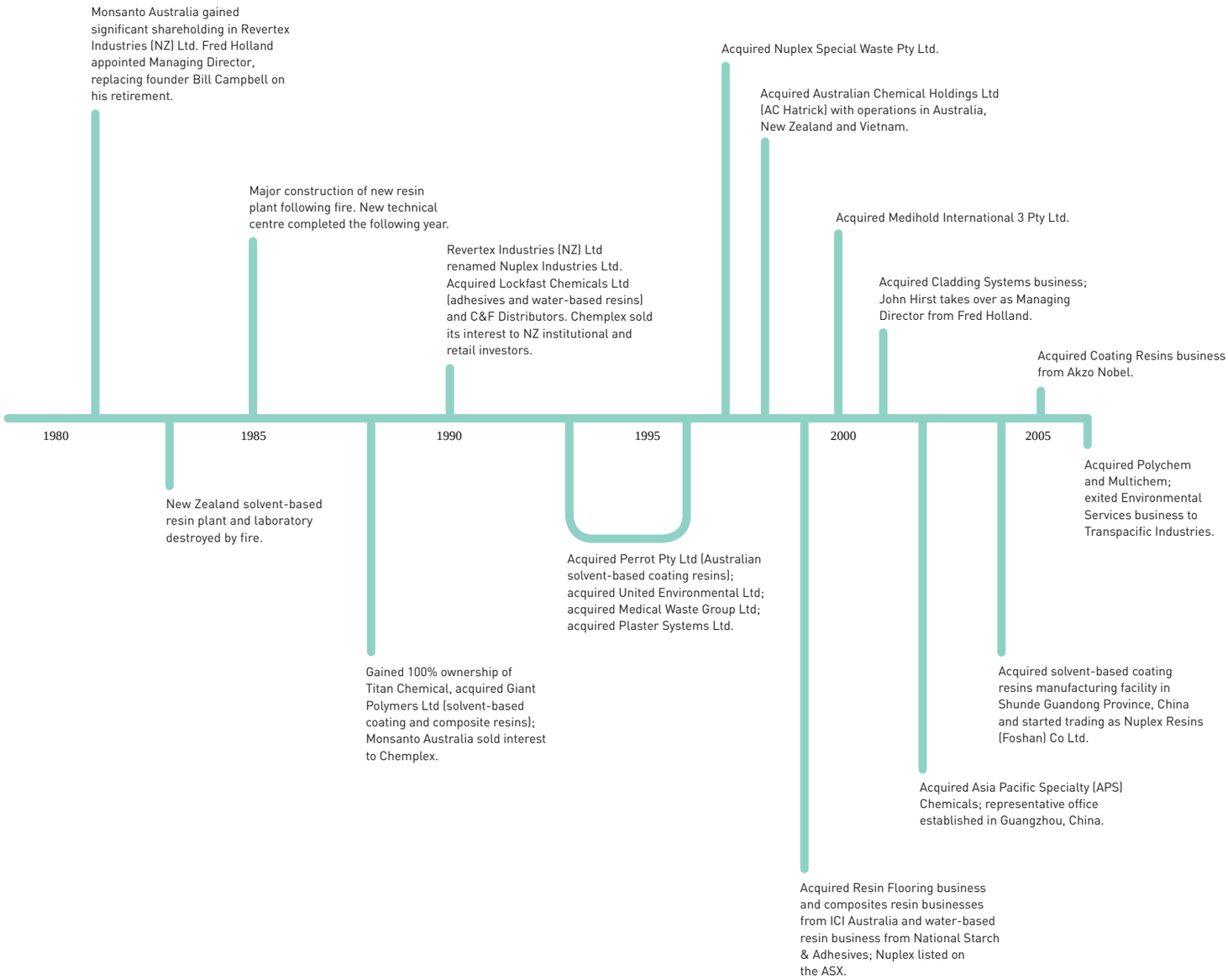
# 50 YEARS OF GROWTH AS A PUBLIC COMPANY




## 1967–1987: broadening interests

Nuplex Industries grew over 20 years by broadening its range of polymers and resins by licensing technology from leading producers in USA and Europe. Growth was also achieved through developing new markets for niche products in Australia, Asia and the Pacific Islands.

During this period, the flooring business expanded into a broader range of specialty construction products including decorative and hygienic flooring technologies and exterior cladding systems.




## 1993–2006: growth through acquisition

Nuplex combined organic growth and strategic acquisitions to move to a position of market leadership in Australia and New Zealand. The strategy was to rationalise industries that had become fragmented during the era of tariff protection up to the 1980s. The consolidation of domestic volumes provided economies of scale that ensured manufacturing in the Australasian plants could remain competitive.

nuplex®

# SHAPING UP

After 50 years of doing business, we're happy to declare that we've never felt better. And from today we are proud to say we've never looked better.

You are looking at the fresh new face of Nuplex – a new brand marque for a new era of multinational business.

As we look forward, we can take pride in the achievements and milestones of the past. Strong consistent leadership, organic growth and strategic acquisitions have combined over the years to make us the company we are today – a technology-driven multinational resins and specialty materials business turning over well over a billion dollars per annum. That's a ten-fold increase in the last 10 years alone.

With the changes this growth has brought to our business, it is fitting that we redefine and project who we are and the pivotal role we play in our customers' businesses.

Our new logo is therefore our badge and our signal to the market of Nuplex's renewed vitality and presence on the world stage. It represents our commitment to creativity, innovative thinking and intelligence in developing advanced technologies. And it also stands for the strength and openness in our relationships, where our focus is on partnering with our customers in the development of sustainable solutions that significantly improve their market competitiveness.

Like all change, it may take a little getting used to. But we believe that, with today's operations spanning 15 countries and involving nearly 2000 employees, we're a long way from the way we used to be – and so high time we looked as good as we feel.

# CHAIRMAN'S REPORT

Fred Holland, Chairman

2006 is the 50th anniversary of Nuplex as a public company, and the Board is proud to present a result worthy of the celebration of our half-century. It was also the year in which two key milestones were reached, with sales exceeding $1 billion and EBITDA surpassing $100 million for the first time. Perhaps even more importantly, the profit for the company was a record.

Operating profit for the year ended 30 June 2006 was $38 million, 15% ahead of last year.

Reported profit was $62m and includes an unusual profit of $26.5m. Of this, $24.7m was realised from the sale of the Environmental Services group in November 2005. It also includes the reversal of earlier provisions taken following the acquisition of the resins business from Akzo Nobel in January 2005, and new provisions associated with planned restructuring of that business. Costs associated with the portfolio realignment of Asia Pacific Specialities acquired in July 2002 are also included in the provision. The restructure of these businesses was announced in June 2006 and will be progressively implemented during the 2006/07 year.

Sales increased by 40% to $1,301m ($929m) while underlying earnings at the EBITDA level increased by 27% to $103m ($82m). Growth principally came from a full year's contribution from the new resins business. The disposal of the Environmental Services business and acquisition of the Polychem/Multichem businesses increased revenue but were neutral to EBITDA contribution.

The result was achieved despite a flat performance from traditional Australian and New Zealand markets. Asia provided high growth, with China delivering its maiden profit. Both the Americas and Europe benefited from stronger demand and market success, endorsing the strategy of regional diversification. Certain businesses are still underperforming, with unrealised losses leading to an abnormally high tax rate. It is anticipated that there will be future tax benefits from current turnaround programmes with these operations.

Escalating crude oil prices and capacity shortages in refining and petrochemical manufacturing continued to drive up raw material costs throughout the year and increased investment in working capital. These costs were generally recovered, but some time lag in a competitive environment frustrated efforts to fully return margins to historical levels. High utility and transportation costs also combined to create a testing environment for the global resins business, which represents 83% of group profit.

With the acquisition of Polychem and Multichem, the Australasian-based specialty products business now represents 13 percent of continuing operations and is well positioned for future growth. Construction Products, which has its major business in New Zealand, represents the balance of group profit.

Strong positive cash flow provided for the payback of debt to achieve Directors' preferred debt-to-equity ratio of 50:50 while maintaining the tradition of increasing dividends.

The good result was achieved against an unfavourable background of rising raw material costs, a slowdown in some of our core markets and a strong New Zealand currency for most of the year. This performance confirms the resilient structure of the company's business portfolio.

Success can only be achieved through the skill, hard work and dedication of all our employees. On behalf of the Directors and Shareholders, I thank everyone for their contribution to this year's result.

## Directors

The Board has been working on succession planning, recognising the need to provide a strong nucleus to take the company through the next 10 years, but also mindful of the need to retain key elements of the company's culture that have contributed to the successes of the last 15 years. To this end, it is considered to be important that a new director has sufficient time to become established on the Board before the director who is being replaced stands down.

An amendment to the Constitution that will enable the Board to take this approach is proposed for your consideration.

" Sales increased by 40% to $1,301m ($929m), while underlying earnings at the EBITDA level increased by 27% to $103m ($82m)."

As the first step in this process, Colin Martin stood down as a Director on 30 June 2006. Colin joined the Board in January 1995 when turnover was under $100 million, total assets were under $70 million and the Company had only recently made its first move into resin manufacture in Australia. He made a major contribution to the strategies for subsequent growth. As a member of the Audit Committee, he applied his broad experience in international management to help drive the major shift in corporate governance that has occurred over the past few years. On behalf of the Directors and Shareholders, I thank Colin for his dedication to the success of the Company and the expertise he brought to the Board's deliberations.

Rob Aitken joined the Board on 1 July 2006. Based in Sydney, Rob has enjoyed a successful executive career with BTR Plc and Southcorp Ltd, managing manufacturing operations in Asia, Europe and USA as well as Australia and New Zealand. Rob is also a Director of Alesco, a company listed on the ASX. Rob has a chemical engineering background.

## Obituary

It is with sadness that we record the death in April 2006 of Bill Campbell, the Founder President of the Company.

Bill founded the Company in 1956 and had the vision and courage to drive the growth of the Company during its formative years. By the time that he retired as Managing Director in 1981, he had created a blueprint for growth and success that has been the basic pattern for our subsequent progress. Bill was an inspiration to his staff, and many of the people who had the good fortune to work for him are now operating in key areas of the expanded group.

Bill served as non-executive Chairman until 1996, then as a Director until 1998 when he retired from direct involvement, although he retained a keen interest in the ongoing progress of the company.

On behalf of the Shareholders, Directors and staff of Nuplex, I extend our condolences to his wife and family and express our gratitude for the legacy he has left in the form of the Company he founded.

## Dividend

The Directors have declared a final dividend of 19.5 cents per share (cps) with an imputation credit of 4.0 cps. This brings the total gross dividend paid for the year to 44.4 cps and represents an increase of 12% over the prior year.

The majority of New Zealand resident shareholders will receive a cash dividend of 15.745 cps after deducting Resident Withholding Tax. This compares with a fully imputed final dividend of 14.5 cps paid last year. The Company had previously signalled it would be unable to fully impute future dividends for New Zealand residents.

An Australian franking credit will be attached at the maximum rate. Overseas resident shareholders will also receive a supplementary dividend of 1.433 cps.

The dividend is payable on Friday, 20 October 2006 to shareholders on the register at the close of trading on Friday, 6 October 2006.

Shareholders are offered the opportunity to participate in the Dividend Reinvestment Plan (DRP). The strike price will be calculated as the weighted average sale price of all shares traded on the NZX during the first five of the last eight days prior to 6 October 2006, less a discount of $0.26.

The full-year dividend will distribute $26.2 million, representing 69% of operating profit.

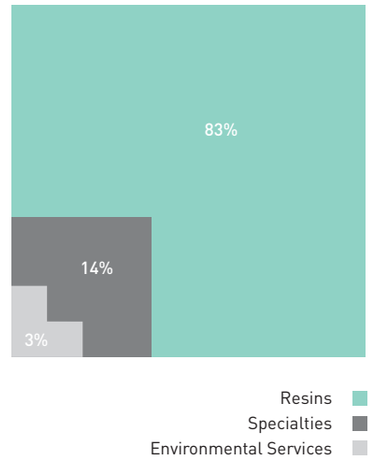
## Prospects

Earnings are anticipated to show steady growth during the 2006/07 year.

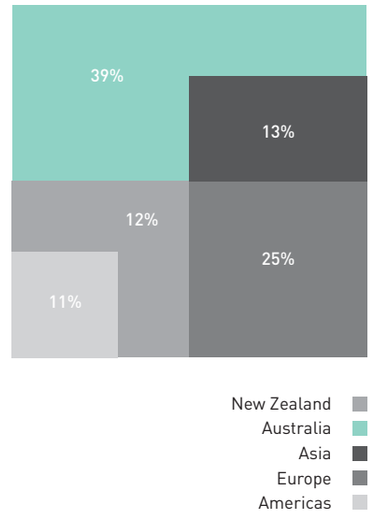
Demand in most markets is likely to be flat but Asia should continue to grow. Costs of rationalising major business segments have been provided in the 2005/6 year's accounts, and benefits are expected to accrue progressively through the year, with the major impact being realised from the 2007/08 financial year. A weaker New Zealand dollar will increase returns from international operations, while raw material costs are expected to remain high for the foreseeable future, requiring continuing focus on margins and working capital.

Fred Holland
Chairman

Industry EBITDA




Regional Sales



From left to right: John Hirst, Fred Holland, Michael Wynter, David Newton, Bryan Kensington and Rob Aitken.

# BOARD OF DIRECTORS

## 01. John Hirst
Executive Director, based in Sydney

Joined the Board as Managing Director in January 2001 following five years as Chief Executive Officer of Nuplex Industries (Aust) Pty Limited. Prior to transfer in 1995, John had 10 years as General Manager of the New Zealand Resins business. He joined Nuplex in 1967 from the paint industry where he was employed as a chemist. John had a range of technical and sales roles within the company's resin business including a secondment to Sydney to develop an Australian resin business between 1977 and 1985.

## 02. Fred Holland
Non-executive Director, based in Auckland

Joined the Board of Nuplex Industries Limited as Managing Director in December 1981 and became Chairman and Chief Executive Officer in July 1996 until standing down as Chief Executive in December 2000. Fred first joined Revertex (NZ) Ltd, the forerunner of Nuplex, in May 1965 and was General Manager of the Resins business until 1981. Prior to immigrating to New Zealand, Fred was a process engineer with Revertex Limited, the original UK shareholder and technology provider to the New Zealand company. He had served Revertex since 1954 and had commissioned the first New Zealand plant in 1962.

## 03. Michael Wynter
Independent Director, based in Sydney

Joined the Board in April 1998. Michael is a partner in the Australian legal partnership of McCullough Robertson. He has a broad experience in Australia, Japan and South East Asia and was involved in the negotiations for establishment of our Vietnam plant. He was a Director of Australian Chemical Holdings from 1993 and Chairman from 1995. Michael is a member of the Remuneration Committee.

## 04. David Newton
Independent Director, based in Melbourne

Joined the Board in July 1999. David had served 12 years as the Chief Executive Officer of Rhone-Poulenc for Australia and New Zealand, a subsidiary of a French multinational chemical company, until his retirement in December 1998. Prior to that appointment, David had served in several senior management roles within ICI, both in Australia and Europe. He is also a Director and General Manager of Stem Cell Sciences Limited, Australia and a Director of Stem Cell Sciences KK, Japan. David is Chairman of the Remuneration Committee.

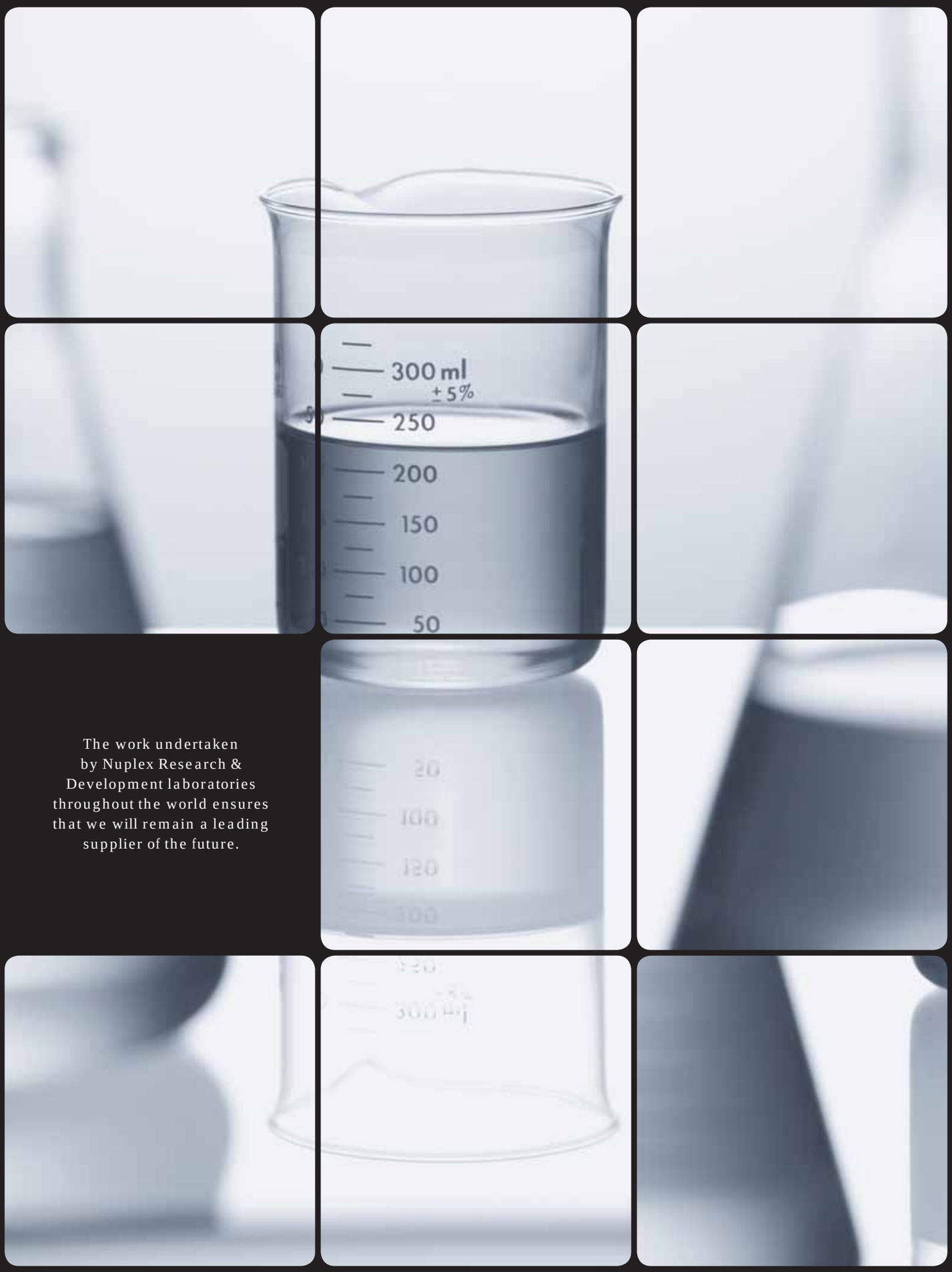
## 05. Bryan Kensington
Independent Director, based in Auckland

Bryan Kensington was appointed to the Board in January 1993. Bryan is the retired Chairman of Ernst & Young, Radio New Zealand Limited, the New Zealand Advisory Board of Westpac Trust, Ngawha Geothermal Resource Co Ltd and the Southern Cross Healthcare Group. He is the Chairman of Emerald Capital Limited and is Trustee of the Royal New Zealand Yacht Squadron. He was previously a member of the Council of the Institute of Directors and Chairman of the Auckland branch. In 2004 he was elected as a Distinguished Fellow of the Institute of Directors. Bryan is Chairman of the Audit Committee.

## 06. Rob Aitken
Independent Director, based in Sydney

Joined the board in July 2006. Rob has over 25 years' experience in senior management roles with manufacturing, industrial marketing and distribution businesses in Australia, Asia, North America and Europe. Most recently this has been as Executive General Manager Southcorp Water Heaters and Southcorp Appliances and, prior to that, as President Formica Corporation. He is the Chairman of Rubicor Group Limited, API Securities Holdings Pty Ltd and Formit Services Pty Ltd. He is also a Director of Alesco Corporation Limited and the YMCA, Sydney. Rob is a member of the Audit Committee.

# R&D LEADERSHIP




The work undertaken by Nuplex Research & Development laboratories throughout the world ensures that we will remain a leading supplier of the future.

## THE SKY'S THE LIMIT

It is what happens today that matters when it comes to tomorrow in the world of resins science. Ideas conceived from brainstorming sessions, incredible moments of inspiration, and the endless search for ultimate perfection lies at the heart of research work that will eventually lead to the development of a new range of resins for diverse applications.

The Nuplex Innovation Centre has been established on the Wageningen University campus in The Netherlands, as the "incubator" of these novel ideas. Our businesses servicing the coatings, adhesives, composites and paper market segments all benefit from this work.

The university is a research institute specialising in a broad range of interests which include food, plant, environment, agriculture and industrial areas, and provides key analytical and physical testing capability for our team of 10 professional scientists based in a purpose-built laboratory.

Work undertaken in our laboratory is focused on new materials, chemical reactions and processes, as we seek solutions to improved product performance and higher environmental standards. Indeed, with the European community legislating a substantial reduction in the use of solvents by 2010, our success in developing new resins is critical to our customers in maintaining and growing their traditional business.

Through the efforts of the members of the Nuplex Innovation Centre, and their product development specialists in Europe, North America and Australasia, a full suite of products is now available in all key areas of technology, protecting the future for both Nuplex and our customers. Typical of new generation resins are those with substantially lower solvent contents or non-polluting solvents, water-based systems, and solvent free powder resins. In the complex world of resins for coatings, there is no one answer to every problem. The work undertaken by Nuplex Research & Development laboratories throughout the world has ensured that we are positioned to continue to be a leading supplier of the future.

## WATERBORNE CLEARCOAT – A CHANGE FOR THE BETTER

Air pollution is becoming a major problem in most industrialised and densely populated regions around the world, leading to ever increasing regulatory controls in many countries. Germany is amongst those where new regulations will significantly impact major industrial coating operations. Such businesses must either drastically reduce their use of solvents or install expensive air pollution control systems. One answer is to replace solvent-based resin systems with alternatives, including water-based and powder systems.
Since the beginning of 2006, a luxury automobile maker has been using a waterborne clearcoat on plastic exterior body panels, which provides gloss and physical protection to the coloured, pigmented base coat. Based on work from the laboratories in Bergen op Zoom developed in cooperation with the team from the Nuplex Innovation Centre, it uses Nuplex proprietary patented technology.

The clearcoat complies fully with the company's rigorous performance specifications and its appearance is similar to a solvent-borne clearcoat. This successful large-scale line application in Europe is a first for the industry, and full introduction of the waterborne clearcoat will make the plant compliant with the most stringent emission regulations.

## POWDER COATING – THE IDEAL FINISH FOR ANY SITUATION

The next time you are standing next to a major skyscraper, take a closer look at the finish of window frames and metal panels. What you may not have realised is that most buildings are coated with a finish made of powder, not the traditional liquid paint.

The exterior metal parts of buildings are coated by paint in a fine powder form applied by electrostatic spray. The paint is then cured by baking at high temperatures. The result is a tough, durable finish able to withstand the harsh sunlight, strong winds and soaring temperatures that skyscrapers are subjected to.

One advantage of this type of coating over conventional solvent-borne paints is that it is completely free of solvents that have the potential to be environmentally unsafe. No volatile emissions also means less replacement hot air is required for ovens and no 'flash off' period is needed. Because there is no overspraying, thinning or mixing, wastage is kept to a minimum. This saves energy and reduces greenhouse gases. It is also easy to apply a uniform thick coat and achieve a consistent appearance.

It is often packaged in recyclable paper sacks which makes transport, storage and usage easy – and non-hazardous.

The powder is applied with a special spray gun that gives it an electrostatic charge. The metal being sprayed has an opposite charge, so the powder is attracted to the metal.

Thanks to its adaptability, high-class finish and eco-friendly properties, this type of coating is now being more widely used for other applications such as metal outdoor and office furniture, where a fine glossy spray is administered to achieve a durable, sparkling finish.

Some automotive parts and whitegoods are also coated with powder, particularly when they are expected to be exposed to tough treatment. In fact, all kinds of products produced from metal are candidates for this new technology. And it doesn't finish there. New technology and processes are enabling the use of powder resins on other substrates – including wood – to provide coatings with high resistance properties and long-life performance.

Nuplex powder resins are key players in the quest for high-performance coatings with low environmental impact. Production from plants in Britain and Thailand service the European and Asian markets.

Nuplex powder resins
are key players in the quest for
high-performance coatings with
low environmental impact.

The switch from solvent to water-based systems to meet environmental concerns poses a new challenge – a challenge Nuplex has solved.

## WOOD COATING BENEFITS FROM NANO-TECHNOLOGY

Tannins, which are present in all woods to varying levels, pose a problem in the wood coatings industry, as they can seep through the finished coating – either during application or after – to leave a dark, permanent discolouration.

Whether it is a householder using decorative paints or a furniture manufacturer using sophisticated application systems, such discolouration is unacceptable.

The industry solution to this issue was to develop novel inorganic nano-particles to prevent tannins and other water-soluble chromophoric compounds from reaching the surface.

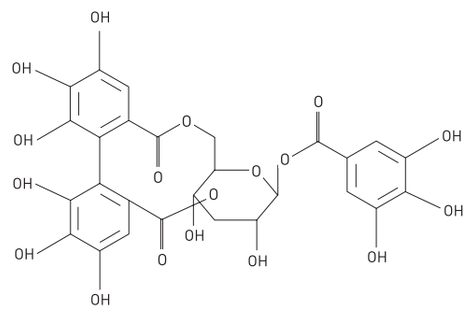
However, the switch from solvent to water-based systems to meet environmental concerns poses a new challenge: because tannin is also water soluble, the potential for bleeding once again rears its head.

Nuplex has solved this problem. Our research has identified that the dispersion of nano-particles of hydrotalcite layered silicate, with its high surface area and charge, acts as a block in a waterborne acrylic dispersion to prevent tannins reaching the surface.

The preparation of the hydrotalcite dispersion requires careful processing to ensure that lamellae structure is broken down into primary particles through the use of dispersing agents.

This technology has been shown to be a significant improvement over competitive systems, widening the scope of wood selection for manufacturers and eliminating nuisance stains for householders.

This patented technology will be available to customers worldwide in the near future.




## FORMING STRONGER BONDS

A constant challenge for the paper industry is producing stronger paper, particularly for packaging and disposable tissue products, while also keeping costs under control.

Currently, paper manufacturers in Australia use high levels of recycled paper. This not only has cost advantages but represents a substantial benefit to society through a reduction in waste and also in processing costs to produce base pulp for paper production. However, the downside is that often the strength of the final product is weakened because the additional processing of recycled paper causes the fibres to break and shorten, compromising their ability to reinforce.

The challenge was to develop a process that can use a substantial percentage of recycled fibre while still producing a quality product with all the attributes of virgin material.

To achieve these objectives, Hercules Chemicals, a division of Nuplex with special focus on the paper industry, introduced a new line of products. These resins were developed to provide strength to the paper in addition to improving processing efficiency, which are outcomes required by papermakers.

This development, which received a high level of input from our Australian technologists, has proved highly successful, resulting in the technology's introduction globally. These products will allow the elimination of one step in the manufacturing process for some manufacturers and the opportunity to increase the use of low-cost fibres from recycled paper. These benefits will enhance the quality of the paper produced and also increase the profitability of our customers. Nuplex is proud to be associated with this innovative contribution to quality and environmental improvement.

# VALUE THROUGH INNOVATION

## A SPRING-FREE TRAMPOLINE

Parents who buy a traditional trampoline often worry about safety. Not only can feet and hair become tangled in the springs, children may risk injury by crashing onto the frame or to the ground below. Conventional springs also tend to rust over time through neglect and exposure to the elements.

New Zealand company SpringFree™ has overcome these problems by developing a trampoline that replaces spiral steel springs with Fibreglass Reinforced Polyester (FRP) rods which are composite materials using Nuplex products. Mounted continuously along a circular steel frame at about 45 degrees, in a cantilever configuration, the rods support the rim of the trampoline's mat from below.

Placing the frame and rods below the mat surface in this manner prevents the user coming in contact with the solid part of the trampoline and suffering injury. It also reduces the trampoline's 'footprint'.

The revolutionary SpringFree™ trampoline.

The rods are the result of a decade's research by Nuplex and the team at Pultron Composites, the New Zealand company that worked with Nuplex to fine-tune resins suitable for ultra-high performance rods in technically difficult applications. The resins are further compounded by Pultron – and the resulting combined technology is the fibreglass rod in the SpringFree™ trampoline.

Further advantages over the traditional alternatives, steel and aluminium, are a better strength-to-weight ratio, greater dimensional accuracy, non-conductivity, and corrosion resistance.

The diagonally positioned rods are also more aesthetically appealing than conventional springs, which is a great selling benefit.

To prevent falls, the trampoline comes with a safety net that can be placed around it.

To top everything off, the FRP "springs" don't rust or squeak – ever.

The SpringFree™ trampoline is currently distributed throughout the USA and has been nominated for a number of awards.

## CLEAR THINKING

Go into the CBD of any city, and in every direction you look you'll see acres and acres of laminated glass.

The laminating process is very simple. A film – usually with UV-blocking properties – is placed over one sheet of glass, another sheet of glass placed on top, and heat is applied to melt the film and adhere it to both surfaces, bonding them together.

The resulting glass is stronger and more sound-proof than a single sheet, and also reduces glare.

This process is also extraordinarily demanding. Unless both sheets of glass are extremely smooth, bubbles will appear between glass and film. Besides the aesthetic issue, it also weakens the bond.

However, if you want to laminate two pieces of curved glass, it is a much more difficult process. Not only do both surfaces still have to be smooth, they must also be a perfect fit.

A Nuplex team in the Australasian R&D laboratories took on this issue a few years ago, and has come up with a new approach – based on unsaturated polyester resin – that is revolutionising glass lamination.

The great breakthrough of the team was to develop a completely novel application. They found a way to pump resin between two pieces of glass using an extrusion process. Once cured, it creates an immediate, flexible bond.

Because the resin is applied as a liquid, any minor imperfections between the two surfaces are simply filled, and because the resin is transparent it is impossible to see any irregularities in the glass.

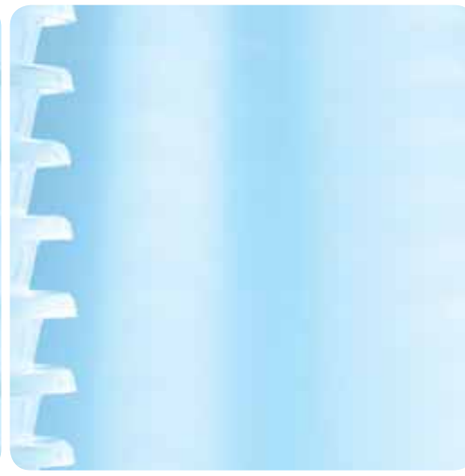
Not only does this give better results than film, it is also faster to create a finished product.

Film comes in a limited range of colours, while the Nuplex product is clear and can have any coloured dye added to it. And it's so strong that it is already being used in bulletproof glass for banks and in safety glasses.

Originally developed out of discussions with Nuplex's Australasian customers, the product is now being exported around the world; most notably to China, where fast-growing cities like Shanghai are making full use of the exciting design possibilities it allows.

A new approach is revolutionising glass lamination.

# VALUE THROUGH INNOVATION




Customers using Culaset have found it increases productivity by approximately 30% which has the additional benefit of lowering manufacturing costs.

## AN ADDITIVE THAT REDUCES COSTS

Culaset is an innovative specialty additive that significantly reduces cycle times in both injection and extrusion projects. It is generally used in high-run production lines for plastic moulded articles.

Culaset's great benefit is that it ensures the moulded item sets up quickly, which results in the finished article being able to be removed from the mould sooner. Customers using Culaset have found it increases productivity by approximately 30% which has the additional benefit of lowering manufacturing costs.

Couple that with Culaset's versatility (it can deliver its benefits across the entire range of physical properties required by diverse applications), and you have a product with extremely wide application.

Because Culaset provides stiffness and rigidity to thinner applications, it makes it possible in some applications, such as clear water drink bottles, to produce items only a few millimetres thick. Previously, this would have been unthinkable.

Achieving uniform shrinkage of a product, and avoiding warping, are complicated challenges. The traditional answer is to slow down the manufacturing process, which of course costs time and money. By using Culaset, moulders can achieve uniform shrinkage and low warpage while maintaining normal production speeds.

Culaset is provided by Culamix, a Nuplex business specialising in innovative colour and functionality solutions for the plastics industry.

## BUILDING BETTER BUSINESS PARTNERSHIPS

Multichem (Australia) and Polychem (New Zealand) are exclusive Australasian agents for many of the world's leading raw material suppliers. The quantity and quality of their principals ensures that New Zealand and Australian manufacturers have access to the world's latest technology and best materials for both customers.

However, they are not simply a link between suppliers and manufacturers – both companies also provide a range of specialised (and customised) services including local transportation, currency exchange, management, financial transactions, warehousing and repackaging. Marketing and technical services are also offered as needed.

Multichem and Polychem have found that forming long-term partnerships has provided certainty to both customers and principals and the result is a truly enviable reputation as one of the region's leading value-adding specialty chemical distributors.

With a 40-year history of growth in New Zealand, based on long-term partnerships, Polychem shares much in common with Nuplex. In fact, the two companies have been, at various times, customers, suppliers and competitors – but always respectful of each other as high performers. Polychem and Multichem became part of the Nuplex Group in 2005.

# VALUE THROUGH INNOVATION

## TOUGH PRODUCTS FOR TOUGH ENVIRONMENTS

When New Zealand's Corrections Department began designing Auckland's new women's prison, one of their key priorities stemmed from changing societal standards: they wanted to ensure it did not look as "institutional" as prisons of the past.

So while common areas such as kitchens, laundries and hallways had to be hard-wearing, hygienic and able to withstand harsh treatment, they also had to maintain their aesthetic appeal over time.

That called for a reputable supplier of quality, long-life, durable systems.

Nuplex's comprehensive range of construction products fit the bill perfectly. Marley's non-directional vinyl flooring system was used to cover over 9,000 square metres of hallways and common areas to provide a hard-wearing yet attractive finish. A sister product, Sureshield, provided a similarly hard-wearing, hygienic, resin-based flooring system and hygienic coating in kitchens and laundries.

Most walls were built with Fibreclene, which can withstand an enormous amount of pressure and high temperature while still maintaining a pleasing, quality finish. Bituthene, a waterproof membrane, was used to prepare a 3000 square metre landscaped pond area.

To add to the complexities of this large project, Nuplex had to work with one architectural firm in Sydney which developed the design concept, and another firm in New Zealand which managed specifications. Nuplex's reputation as a reliable supplier of its own manufactured and imported products was an important factor in its selection for this tightly scheduled project.

## LESS ODOUR = HAPPY PIGS AND HAPPY FARMERS

Pigs can fly! Well, not really, but the odour from a commercial pig farm certainly can, making its presence far too closely felt for neighbours as well as for the farmers who work there.

Nuplex, through one of its many international raw material suppliers, has found an answer to the problem. By spraying a solution of the non-hazardous material Forestall at regular intervals into the air, foul odours have been entirely eliminated. The product is one of a unique class of effective odour eliminators that neutralise various malodours by forming a complex with specific organic molecules and reducing their concentration in the vapour phase.

Using the treatment on a regular basis provides a number of benefits for human and animal alike. Farmers benefit by being able to work inside the farm without the discomfort of overpowering piggy odours, while neighbours are also happy at the disappearance of the telltale "pigsty" smell intruding into their homes.

As for the pigs, they have been found to be much happier and more content, and as a consequence they fight less. The result is that they put on weight faster, increasing profits to the farmer. So everyone's happy!

Nuplex agency and distribution businesses source and represent products from leading international suppliers to provide solutions in many market segments including food, nutrition, agriculture, horticulture and industry.

By spraying a solution of the non-hazardous material Forestall at regular intervals into the air, foul odours have been entirely eliminated.

# MANAGING DIRECTOR'S REPORT

John Hirst, Managing Director

## Managing Director's Report

A record for revenue and operating profit with strong cash flow was a welcome reward for much hard work and dedication shown by an outstanding Nuplex team.

Highlights for the year included:

- 50 years of growth as a public company
- substantial lift in dividend and payout ratio
- share price reaching new heights
- a full year of results from the resins business acquired from Akzo Nobel in January 2005
- good progress being made with integration of that business and benefits began to accrue from technology exchange in both products and processes
- commercialisation of new technologies across a range of businesses
- achieving excellent growth in Asia and a maiden profit in China
- completion of the acquisition process to bring the Brazil resin plant ex Akzo Nobel into the group
- commencement of significant restructuring of the European business to align this with the needs of the future market
- significant realignment of the business portfolio including exiting the Environmental Services sector, strengthening the agency and distribution business, and finalising the future shape of the Specialty Products manufacturing segment
- positioning the group for further growth

As a result of transforming the portfolio, sales into the various resin sectors are expected to represent 75% of future business. Resins consist of a number of business divisions with brands specific to their end market.

Nuplex Resins is the largest group and services the coatings, adhesive, construction and textile markets globally.

FGI, Nuplex Composites, EMP and NSR are all branded operating divisions dealing principally in New Zealand and Australia – and increasingly in Asia – into the composites or fibreglass market.

Hercules is the banner under which the business unit operates which focuses exclusively on the paper manufacturing sector.

Going forward, the other reporting segment – Specialties – is expected to contribute 25% to revenue.

Currently, this segment is a fairly complex unit of businesses with limited synergies in some areas, yet significant commonality in others. Principal operating divisions expected to form part of the future portfolio include:

Nuplex Construction Products – has largely a New Zealand focus and operates principally in functional flooring and cladding. The original business of Nuplex established in 1952.

APS, Polychem, Multichem – branded agency and distribution businesses servicing the needs of a broad range of industries including chemicals and plastics, food and nutrition, agriculture and wine, and healthcare.

Culamix – manufacturing of colour and functional packages for plastic fabricators.

## Overview

Petrochemical pricing remained the defining issue for management during this period. Pressure on demand was driven by a buoyant US market, some recovery in parts of Europe, and the continuing growth of China. With the price of oil and gas seemingly stretching to new highs almost monthly, input costs for petrochemical producers rose markedly, affecting both their raw materials and energy costs.

This is the third consecutive year where prices have continued to rise and are now nearing a 50% increase over the base year. Of necessity, these increases have been passed through to customers. In some regions, raw material buying patterns are such that a reasonable window exists to enable appropriate advice to customers, and hence good pricing management. Fortunately, this represents the majority of current business.

In other markets, particularly where the supply chain is short, the impact of cost increases can be more immediate, not allowing time for proper advice and consultation with customers. Price lag is inevitable under such circumstances which can substantially impact margins in the short term. However, full recovery is generally achieved in time, and in most instances a corresponding price lag as raw material costs retreat, provides some certainty that long-run incremental margins are maintained. In an ideal world, such opposing lags will occur in a single financial period – this year is a reasonable example. However, there will always be exceptions – both ways – which will ensure some degree of volatility.

Towards the end of the year, raw material availability came to be as large an issue as cost, but the significant position we hold in the world and regional markets provided supply assurance, and in turn, an ability to maintain security of supply to our customers.

Such rapid increases in cost inevitably lead to further investment in working capital. While the effect of foreign exchange translation on the balance sheet suggests otherwise, it is pleasing to note that in domestic currency terms working capital has not increased this year. However, it is fair to say that current margins, which are focused on recovering raw material costs, have not yet factored in the need to service higher costs of business through increased investment, and higher operational costs for energy, transportation and labour. Further moves are therefore essential to achieve former economic returns. It is anticipated that this will occur over the next year or so, following substantial market consolidation which is expected to see market behaviour more rational.

The other significant focus for the company through this year was to begin the process of introducing the Nuplex culture to a number of new businesses spread throughout the world. This will take time but given the quality of people who have joined the Group recently, there is confidence that this most important aspect for growth will be achieved in the foreseeable future.

The new brand is part of this strategy. In the 15 years since the name changed to Nuplex, the company has been substantially transformed from an Australasian to a global organisation. Sales have grown from $70 million to over $1.3 billion and EBITDA by a factor of 16 times. Our people come from much more diverse backgrounds, and our business direction has changed somewhat.

The new Nuplex logo represents what we are today, and what we are striving to be tomorrow. It represents current and future employees and is our rallying flag as we continue to take the message of innovation, added value, customer care, and respect for our people – very much the legacy our founder, the late Bill Campbell, has left for us all.

The overall good result of the Group was in spite of some under-performing assets in UK, Brazil, China and Australia. In each case, we have developed strategies and implemented action plans to turn these operations into profit. Losses totalled $6.6 million which was not deductible for tax purposes. Hence it fully impacted both EBIT and operating profit. The outlook for all of these operations is positive, with the losses expected to reduce by 50% in the 2007 year with further substantial improvement in 2008.

Capital expenditure of $17 million fell well short of the $25 million estimated to be spent in the year. There was no deliberate move to slow capital spending, and for a variety of reasons the majority of growth projects have been delayed but expected to commence soon after year end. Most pleasing, however, is that it is considered that the substantial expenditure on compliance and sustenance that largely arose from a need to bring acquired plants up to the company's high standards of SHE is now behind us.

Capital expenditure over the past five years has equalled depreciation, and compliance in particular has been over-represented. Moving forward, we anticipate the next five years' expenditure to largely match depreciation; however, a significant majority will be earnings focused, on both capacity build and operational efficiency.

" A record for revenue and operating profit with strong cash flow was a welcome reward for much hard work and dedication shown by an outstanding Nuplex team."

Rob Harmsen
Group General Manager,
Nuplex Resins

## Resins Overview

### Nuplex Resins

Nuplex Resins, focused primarily on the coating industry and headed by Group General Manager Rob Harmsen, enjoyed a good year with EBITDA up by over 80%. While this was principally as a result of a full year of input from the ex-Akzo Nobel resin business, traditional operations in Australasia and Asia also contributed ahead of the prior year.

Rob has five regional managers reporting to him: Richard Allan (NZ); Ronny Chew (Asia); Mike Kelly (Americas); Paul Kieffer (Europe); Mike Law (Australia); and products sold were manufactured in 16 different manufacturing sites throughout the world.

In Europe, the forecasted economic upturn started later than expected with first signals emerging in the third quarter followed by increased demand through the second half. The improvement was by no means widespread across Europe, but an uplift in key consuming countries including Holland and Germany provided hope for a broader improvement in demand to come in the near future.

"Nuplex Resins, headed by Group General Manager Rob Harmsen, enjoyed a good year, with EBITDA up by over 80%. While this was principally a result of a full year of input from the ex-Akzo Nobel resin business, traditional operations in Australasia and Asia also contributed to this increase."

Raw material costs varied in their impact on margins over the year. In the first half there were steady increases followed by a period of stability, and then a downturn through the middle of the year. However, a rapid increase in costs, late in the financial year, together with high energy costs proved a burden. In spite of this, some improvement in margins was achieved which, together with increased volumes and some operational efficiencies, provided a healthy turnaround in performance.

Overall, the European market proved tough, with competitive pressures making it extremely difficult to pass on increased costs, particularly in some segments. This situation is expected to ease over the next year or so.

Competition in Europe is highest in the solvent-based resin market, particularly in the decorative paint segment, due to upcoming environmental regulation and a general trend toward environmental friendly resins like water-based, powder and high solids solvent-based resins. Conventional solvent-based resins will diminish in market share as a result but will remain important in key industrial segments. New technology in the form of a high solids solvent-based product line is finding favour and substantial growth is expected. The business has successfully developed a large suite of products able to meet the new EU regulations with many others in the pipeline, and is well placed to continue to be a major player in this segment in the future.

As a consequence of the trend towards new technologies, restructuring of both European sites in Bergen op Zoom (Netherlands) and Silvertown (UK) is well advanced. Plans include significant reorganisation, which will lead to job cuts to meet the demand for different skills, as well as investment in emerging technologies.

Nuplex Resins is a technology leader in the European market and can report some important successes such as the introduction and commercialisation of waterborne base coat and scratch resistant clearcoat resin for the automotive and vehicle refinish markets.

The UK operation made a significant recovery from the extremely high losses reported in the prior year, reducing the run rate by around 50% through good management control. Implementation of further restructuring plans will see profitability improvements through the 2007 year and breakeven in the following year is anticipated. Plans are well advanced for some further investment to increase capacity.

Europe is a growing market because of the integration and development of Eastern and Central Europe. These new markets demand quality and performance as a prerequisite to doing business. Europe in total is a competitive arena in the middle of a significant change toward environmental friendly coatings and a place in which Nuplex has the capabilities to continue to play a leading role in the development and supply of resin to our customers.

North American economic conditions were overall favourable which facilitated continued growth and success in all strategic market segments. The general metal market was particularly strong, with a rebound in demand for coil coatings. Unprecedented increases in raw materials were the result of the devastating hurricane season in the Gulf Coast region of the United States. Raw material shortages and supply interruptions proved to be a major challenge. However, numerous price increases throughout the year largely counterbalanced the raw material increases. Margin recovery, good volumes and cost control generated a strong operating result.

A commercial reorganisation allowed for continued focus on strategic markets and increased momentum in building close partnerships and supply agreements with key customers. Advances were made in new technology and, applied to the automotive sector, strengthened the company's leadership in the vehicle refinish market. New process technology will enable us to continue to introduce higher performing, differentiated products in the next year. Significant strides were made with a production efficiency programme which has expanded capacity while lowering the cost of manufacture, waste, and inventory.

New business development initiatives are underway to further grow a significant position in waterborne technology and new markets.

Continued strong emphasis on safety has resulted in a new record in Louisville having achieved the major milestone of 10 years without a lost time incident.

Although general economic conditions were healthy in South America, significant business was lost due to a technology change by a major customer. Aggressive business development plans are in place, and a multitude of new products are being introduced to a much broader and more extensive customer base. Losses experienced in this business during the past year are not expected to continue beyond 2007.

In Asia and throughout the Group, there is much pride in achieving our maiden profit in China where the Suzhou operation enjoyed amazing growth. The Vietnam operation also experienced an excellent performance improvement.

Business disruption in Foshan due to a safety incident, and slower architectural market growth in Vietnam, were the only soft spots in markets where demand was strong overall. These factors reduced volumes below expectation although they remained substantially above the prior year. However, thanks to product mix, price and operational cost management, and a sound record of raw material cost increase recovery, operating profit improved substantially. Cash from operations increased significantly from superior operational results and improved working capital control.

In operations, projects to upgrade the plant in Foshan were accelerated to improve safety standards as well as increase capacity to serve South China markets. This operation remains in a loss-making position but is expected to be in profit in the 2008 year on the back of volume growth. Further investment in capacity and capability to expand both volume and the range of resins offered to the market is planned for commercialisation in late 2007. This will strengthen an already unique footprint in Asia. As the cost of utilities is a concern due to oil price movement, the region is seeking lower cost options by moving to gas or alternative fuel sources where applicable. Energy efficiency improvements are also planned.

The outlook is that demand will remain high but variable across the region, while competition will get more intense, especially in Vietnam, China and ASEAN in general. This will be driven by intra-ASEAN Free Trade Agreements and continued excess capacity, particularly within ASEAN. It is expected that an existing combination of technology, quality and security of supply will continue to provide competitive advantage. Further improvements in supply chain, business processes, manufacturing efficiencies and effective waste management will result in productivity improvement, helping grow profitably and new competitive advantage through improved customer satisfaction.

Across Australasia demand was flat, with New Zealand in particular seeing some signs of a slow-down. With continuing pressure from higher wages and salaries, it will be necessary to seek greater operational efficiencies in future, and further rationalisation is inevitable if reasonable profitability is to be maintained.

Market shares remained fairly constant and the businesses enjoyed a good record of raw material cost recovery in what remains a highly competitive market. Further consolidation of the paint industry was attempted by Barloworld's offer to acquire Wattyl, which proved not to be supported by the competition regulator. This proved to be an unsettling time and has largely resulted in greater uncertainty in the industry.

Technology improvements enabled the organisation to continue introducing environmentally acceptable alternatives to solvent-based systems and to meet higher performance standards with certain market segments.

# RESINS OVERVIEW

Paul Schott
General Manager,
Composite Resins

Ercilia Barahona
General Manager,
Paper Resins

## Composites

Paul Schott, General Manager, Composites, provides the strategic leadership to this largely Australasian business with significant aspirations for Asia. The business did well, equalling the prior year's performance.

Demand was slightly soft in New Zealand but held up well in Australia to be equal in volume with the prior year. However, the second half showed definite signs of weakening, particularly in the marine and sanitary-ware sectors.

High raw material costs were again a feature of this business, and there was general success in passing through these costs, and, in some instances, recovering margins that had previously been eroded.

The market continues to experience change driven by a number of factors including growing Asian demand for Australasian designed and manufactured products, a more rigorous regulatory environment, wage pressures, labour shortages and unhelpful government-imposed loss of flexibility in the labour market. As a result, some customers have relocated their businesses to Asia to take advantage of lower labour and infrastructure costs, an amenable regulatory environment, and proximity to a growing customer base. Traditional customers are now served by imported goods from the new Asian manufacturing base.

Nuplex Vietnam's composite resin unit has been well placed to satisfy the needs of the 'expatriate' industry. Further focus will be given to this market over the next few years and additional investment is planned in China, lifting the number of sites to six that are supplying the composites resin market.

Innovation, technology and customisation continue to play their part in this fast-moving business sector, and the technical teams based in Sydney and Auckland continue to meet the needs of these sophisticated markets and maintain a leadership position across most sectors.

## Paper

Paper resins and chemicals business Hercules is managed by Ercilia Barahona and enjoyed a good year, equal in performance to the prior year.

Demand varied across the business segments with product shifts driven by technology changes. This operation increased its share in key growth areas while suffering decline in others due to significant product substitution to meet rising environmental and cost pressures. This resulted in a switch away from locally manufactured products.

Strong currencies resulted in increased paper imports and limited export opportunities. With some capacity closed out and lost through fire, total paper production reduced over the prior year. Cost pressures on the mills remained high as a result, favouring the most efficient, technically differentiated suppliers. Backed by the technical expertise of the world's leading supplier to the industry, and with excellent technical service, our people proved their ability to add value to customers in this most difficult time.

Future prospects for the industry appear to be better, with the likelihood of new papermaking capacity being built in the near future.

"Innovation, technology and customisation continue to play their part in this fast-moving business sector."

# SPECIALTIES OVERVIEW

Sam Bastounas
Group General Manager,
Specialty Products

David Evans
General Manager,
Construction Products

## Specialties Overview

Profits fell 17% from the prior record year with both Construction Products and Specialty Products unable to sustain their previous performance.

The sale of Environmental Services businesses in December 2005 to Transpacific Industries substantially changed the focus of this segment. Potential for growth within the Environmental Services sector, given the increase in M & A activity and industry consolidation, was seen to be low and the business no longer strongly fitted the company's strategic direction. It is believed that exiting this business was sound policy which delivered an attractive return for the company, opportunity for growth under a new owner, job security and potential for career advancement for a very good management team.

Contemporaneously, the chemicals and plastics agency and distribution businesses of Polychem and Multichem servicing the New Zealand and Australian markets respectively were acquired. The impact of the purchase and sale was essentially neutral to EBITDA but due to the differing nature of the businesses, revenue grew substantially while working capital was a little higher. The company is now well positioned in this agency and distribution sector to continue to grow.

## Construction Products

This business under the leadership of General Manager David Evans found it was unable to repeat the record result of the prior year. Less favourable market conditions prevailed, particularly in cladding and functional flooring systems in this predominantly New Zealand operation.

A frantic period of growth in the dairy and other food segments was followed by the inevitable slowdown in the industrial sector. Resin flooring sales were lower, with only maintenance and refurbishment markets showing much activity. However, share and leadership were retained in spite of the competitive nature of a depressed market, and advantage was taken during this slow period to upskill contractors through increased training. A new resin flooring system providing high performance properties was introduced. This offers a zero odour application environment and the opportunity to apply floor toppings on relatively new concrete, a breakthrough in contracting efficiency.

In the commercial construction segment, demand for the company's waterproofing products increased markedly, resulting in record sales and the prospects of further growth. Resilient flooring, where the focus was on refurbishment, was also reasonably strong while some new institutions, principally prisons, provided a lift in the total market.

Cladding sales were negatively affected by three factors: a reduction in residential housing starts; some hangover from the leaky homes saga reducing the share held by alternative claddings; and a current design trend towards mixed cladding for fashion effect. In spite of this, satisfactory sales were achieved by holding market share and partnering with major construction companies who are increasingly dominating the new house market.

Construction Products success is determined by activity in certain sectors of the construction industry and is very much project driven. It is pleasing to note that the outlook is for an increase in new projects across Australia and New Zealand where there will be demand for Nuplex products.

" In the commercial construction segment, demand for the company's waterproofing products increased markedly, resulting in record sales and the prospects of further growth."

# SPECIALTIES OVERVIEW

## Agency & Distribution

Polychem, managed by Group General Manager Dave Tommas, has a 40-year history in New Zealand and like Nuplex has seen many changes in the market but has held steadfast to a sound business philosophy. The company is highly regarded by its principals, those international organisations that rely on Polychem to look after their interests appropriately in New Zealand, and also its customers, who seek security of supply, reliability, technical service, and fair dealing. Polychem and its sister company in Australia, Multichem, which has a shorter but no less successful history, are very welcome additions to this growing segment within the Nuplex Group. Pleasingly, the business delivered on its budget through the first seven months of ownership.

Specialty Products, largely trading under the APS brand and lead by Group General Manager Sam Bastounas, delivered a similar result to the prior year in its agency and distribution sector. Some softness in New Zealand was countered by growth in Australia, particularly in the high compliance areas of food, nutrition and healthcare. The business increased its range of agency activities which is expected to continue to generate future growth.

## Manufacturing

Manufacturing businesses within Specialty Products suffered further erosion in performance during this year, resulting in a 21% lower profit for the combined business group over the prior year, in spite of sound contribution from the agency and distribution segment. The problem remains that this collection of small operating units lacks critical mass and hence are unable to be sufficiently efficient to be competitive. This is an increasingly typical story in New Zealand and Australia where sometimes competition regulators, in seeking to maintain a competitive marketplace, actually sound the death knell of domestic manufacturing business. It needs to be recognised that, in small markets, imports will always act as a competitive balance and price umbrellas are impossible to maintain where no material tariff exists.

Clearly the Specialty Products manufacturing businesses located on the Seven Hills site are not sustainable in their current form. As a result, various action plans were announced prior to year end. They include relocation to other Nuplex sites where it is considered that businesses have a future and warrant future investment; closure as in the case of food esters in favour of third party manufacturing arrangements; and sale of businesses or product lines.

Execution of the plan is well advanced and completion is anticipated within the 2007 financial year. Costs related to this have been provided in the 2006 year. Significant cash is expected to be released from the proceeds of asset sales and recovery of working capital from discontinued businesses.

On completion, there is confidence that, without the distraction of these loss-making operations, full benefits from the acquisition of Asia Pacific Specialty Chemicals will be achieved.

# SUMMARY

A challenging yet satisfying year. Relentless cost pressures from rising raw material pricing, energy and transportation and the need to constantly seek higher pricing to maintain margin, largely overshadows the great work that continues throughout the group.

Graeme Storey
Chief Financial Officer

Charles Northcote
General Manager – Strategy, Planning and Business Improvement

Tony Cooke
General Manager Operations

Our technologists are being successful in maintaining leadership in certain key market areas and in delivering new products in segments subject to substantial regulatory change. Our engineers are designing better plants and more efficient and environmentally acceptable processes, while our operational people improve reliability, timeliness and logistics. Administrative services are benefiting from improved procedures, while human resources continue its focus on ensuring we maintain our greatest asset – our people. Members of our information technology team deliver modern systems to support efficient business process and all of our staff throughout the world have made their contribution to improvement. A special word in support of our sales people. They are trained to service customers and build business. Nowhere in their training saw a need to spend the majority of their time – for three years now – to be so focused on achieving price increases. A very difficult time for them and their customers alike, and one that I hope will at some time in the near future be behind us. Their success in this most difficult endeavour is recognised.

In more normal times, the company would be rewarded for these superior efforts and outcomes through higher profits, yet they are merely offsetting the corrosive influence of the most sustained cost hike in the history of the company. It is not yet possible to see an end to it.

I applaud the efforts of Team Nuplex and admire the determination to succeed. My personal thanks to you for your great work and to the continuing support of the Board. I am fortunate to have an effective executive management group comprising Graeme Storey (CFO), Rob Harmsen (Group GM, Nuplex Resins), Tony Cooke (Group GM, Operations) and Charles Northcote (GM – Strategy, Planning and Business Improvement).

I look forward to 2007 with confidence that we will build the foundation for the future of the company with the principal rewards coming from the 2008 year.

John Hirst
Managing Director

# SAFETY, HEALTH & ENVIRONMENT

Nuplex Industries is committed to managing its activities in a manner in which no harm is caused to employees, customers, suppliers, property, the environment or the community at large.

Nuplex sold its Environmental Services division in December 2005. The various Safety, Health and Environment statistics presented in this report have been adjusted to reflect this change.

A silo's first delivery.

## Safety & Health

It was not possible to sustain the steep change in performance improvement achieved last year and the Group experienced nine more Lost Time Injuries (LTIs) this year. Each of the Regions recorded more LTIs with Asia, and particularly the Foshan China operation, markedly affected. The performances of the European and Americas Regions continue to be the benchmark for the Group.

### Foshan Accident – October 2005

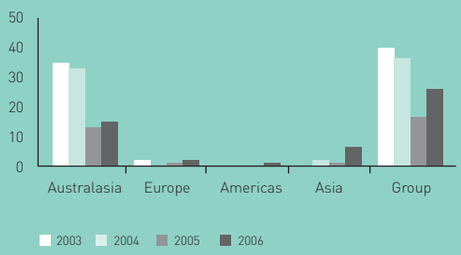
An explosion occurred in one of the reactors during the first phase of the production of a solvent-based resin. Flames escaped from the reactor, seriously burning three operators who were in the vicinity of the open manway. The most probable cause was the decomposition of a chemical which was added to the reactor just before the explosion occurred. A product of the decomposition of this chemical can auto-ignite at low temperatures. Evidence is that this is what occurred which in turn ignited the flammable organic vapour above the liquid level in the reactor.

Two of the operators were hospitalised for an extended period for skin grafting. The third operator suffered lower level burns and was released without the need for similar surgery. All three men are now back at work.

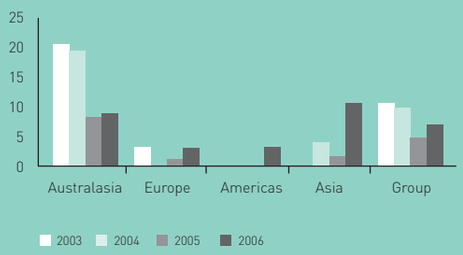
The plant was shut down for a preliminary investigation which led to some procedural changes and suspension of the use of the material determined to be the cause of this accident.

The exhaustive investigation which followed resulted in several improvements to the plant, including a total change in the engineering of the charging facility and the introduction of procedures to eliminate oxygen from the reactors. The upgrade was done on two of the reactors, and use of this particular material is limited to these two reactors.

Lost Time Injuries




Lost Time Injury Frequency Rate



The Lost Time Injury Frequency Rate reflects the higher number of accidents experienced during the year. A number of measures have been introduced to reduce the figure of seven injuries per million man hours worked in the coming year. Targets have been set for sites and with a particular emphasis on the Asian and Australasian sites.

| Region | No. of Manufacturing Sites | | Best Site | Years |
|---|---|---|---|---|
| | TOTAL | LTI FREE | LTI FREE | LTI FREE |
| Americas | 3 | 2 | Louisville | 10 |
| Asia | 5 | 3 | Surabaya | 7 |
| Australasia | 16 | 8 | Canningvale | 11 |
| Europe | 2 | 1 | Bergen op Zoom | 9 |

Only manufacturing sites are included in the "LTI Free". It is pleasing to note that last year's best sites achieved another LTI free year and that over 50% of manufacturing sites were LTI free this year.

The Injury Severity Rate (ISR) chart below illustrates the seriousness of the injuries suffered in the Foshan accident which resulted in a rate of 700 days lost per million hours worked for the Asia region and also had a severe impact on Group performance.

The Total Reportable Rate (TRR) chart below reflects the increased number of LTIs this year. TRR is the sum of LTIs, medical treatment injuries and restricted work cases per million man hours worked and is thus a more comprehensive measure of performance. Asia and the higher Australasian figure have pushed the Group result above last year's level. Lower targets have been set for the coming year, and the additional initiatives described below are expected to raise awareness and help to correct this trend.

Safety Initiatives

Manual Handling: This activity is responsible for most injuries on sites, often as recurring injuries. More attention is paid to this activity than any other to eliminate, isolate, minimise or at least to control the risks involved.

The Plaster Systems plant in New Zealand has made a significant investment to reduce manual handling of their major raw material by moving to bulk handling. Cement is received in bulk, stored in a silo and transported pneumatically to the mixing vessels. Environmental improvements were also achieved using filter systems which prevent the emission of dust arising from handling and processing cementitious products.

Workplace Safety Management Practices (WSMP) Audit: The NZ Resins, Speciality Products and Construction Products sites have achieved secondary accreditation to WSMP, an initiative of the NZ Accident Compensation Corporation (ACC). Achieving secondary accreditation results in a 15% reduction in the standard levy imposed by ACC on the company for workplace injury costs in our industry sector.

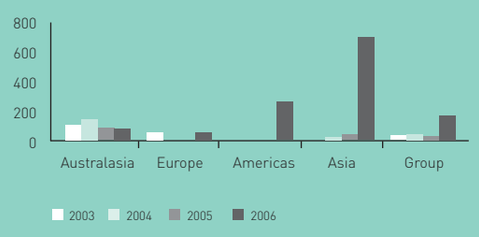
Root Cause Analysis (RCA): training has been given to key management, supervisory and senior operator level staff in Australasia. The procedure facilitates the identification of the true cause of an event and so allows appropriate corrective action to be taken to prevent reoccurrence. This procedure has application in many areas and it is used also to improve product quality in all plants. Training is to be extended to other regions in due course.

5S Housekeeping: This is a structured approach to housekeeping which has been introduced to various manufacturing plants in Australasia. It is a comprehensive system and one that relies on staff buy-in to work effectively and takes considerable effort to introduce. The results are compelling and good progress has been made by focussing initially on 'hot-spots' on each site in order to illustrate the benefits to staff of a clean and orderly workplace.

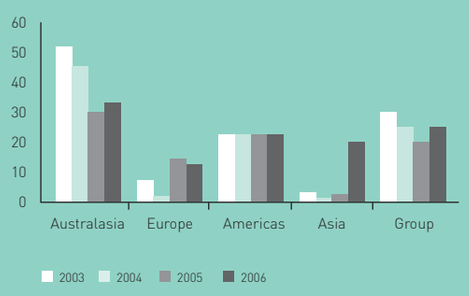
The system was introduced in Japan by a motor manufacturer some 40 years ago, and the title is derived from five Japanese words roughly translated to mean Sort, Store, Sweep, Standardise and Sustain.

The system has also been introduced to Asian manufacturing sites and has been used to good effect in sites in Europe for some time.

Injury Severity Rate




Total Reportable Rate



## Environmental

### Resource Usages

These charts have not been included in previous reports but we do so now that sufficient data is to hand to illustrate trends.

Water usage has been steady over the last four years, although the Louisville plant recorded an exceptional reduction by installing a new water cooling tower in 2003.

Energy is a combination of both fuel and electrical energy. Usage is very steady for the Group and the Regions. The substantial improvement in steam boiler efficiency in Louisville gave rise to the much lower energy usage from 2004 for the Americas. Energy usage is noticeably higher in Europe and the USA because of climatic conditions. Space heating in winter increase usages by about 50% over the summertime average.

In 1999, six of the resin-producing sites in Europe, USA and Asia, which joined Nuplex in January 2005, made a commitment to reduce the impact of their operations on the environment over a five-year period in three vital respects:

- emissions of volatile organic compounds (VOC) to air;
- production of non reusable waste, i.e. waste that is disposed of and not recycled or reused for heat recovery;
- hazardous waste.

The projection was independent of regulatory requirements. The targets and the levels achieved by end-2005 were as follows:

| Combined Six Sites | Target Reduction | | Achieved Reduction | |
|---|---|---|---|---|
| | % | Tons | % | Tons |
| VOC | 53 | 105 | 44 | 98 |
| Non-reusable waste | 17 | 155 | 41 | 366 |
| Hazardous waste | 11 | 460 | 38 | 1,62 |

The results were achieved through unrelenting focus on the issues and step by step reduction. The sites not only met compliance requirements but achieved significant cost savings through lower disposal volumes and lower material losses. The group of sites involved did not meet the VOC target mainly because of a rising sales demand and the relocation of product lines arising from the closure of a site in Britain in 2004.

Targets for the period 2007 to 2011 are being formulated for the Group.

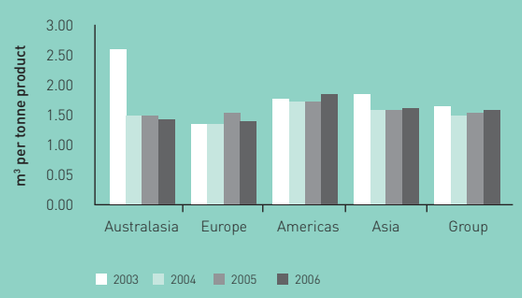
Under new UK hazardous waste legislation, Silvertown is now registered as a hazardous waste producer and has implemented further significant steps to segregate, recycle and reduce its hazardous waste streams, thereby reducing its impact on landfill sites. An annual progression in landfill tax is imposed on the 'polluter pays' principle. Cheaper alternatives are also being explored.

The European region has announced plans to relocate liquid resins currently manufactured at Silvertown to Bergen op Zoom. This will result in a 60% reduction in raw material inventory at Silvertown with environmental benefits arising from the reduction in Volatile Organic Compound (VOC) emissions from processes, tank car loading and offloading operations, bulk raw material solvent movements, and a reduction in hazardous waste packaging and liquid waste streams.

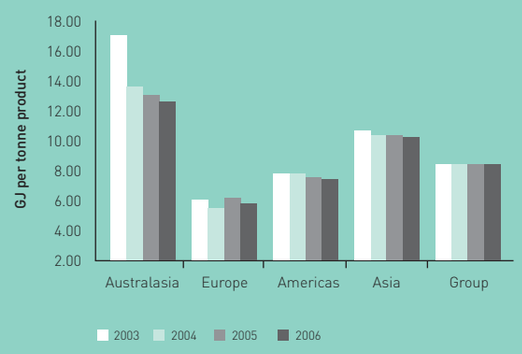
A number of simple improvements have been carried out on site to reduce background odour in the face of an ever-encroaching residential environment. An increase in the number and height of vent stacks, additional vent water traps and the sealing of drain covers are amongst the measures implemented.

Silvertown has successfully completed integration of its Quality, and Safety, Health and Environment into one management system.

Water Usage




Energy Usage



## Compliance & Business Continuity

### Europe

As reported last year, both The Netherlands and United Kingdom sites operate in compliance with the EU Seveso Directive. The sites are inspected at regular intervals by governmental authorities to ensure compliance with the prescribed safety management system which is aimed at preventing or at least minimising the consequences of major accidents involving hazardous substances.

The European Integrated Pollution Prevention Control (IPPC) directive is also being implemented by both countries. The aim of the directive is to have a basic level of environmental protection within all countries of the EU for selected operations (including resin production).

In the UK, the directive is implemented via permits to operate. In March 2006, Silvertown submitted an application which included an extensive description of the operations and an improvement programme aimed mainly at upgrading environmental monitoring, developing more effective environmental protection procedures and reviewing environmental impact.

There is also a system of environmental permits for the selected operations in The Netherlands. All licences have to be in compliance with the IPPC directive as a minimum before November 2007. In June 2006, a gap analysis commenced for the operations in Bergen op Zoom and this is to be forwarded to Government by the end of the year.

### Asia

The two operations in China received their operating permits from their respective Safe Production Bureaux. This is a major compliance step.

A plan to upgrade fire suppression systems at four of the Asia sites has been formulated. Suzhou already has a fully functional and effective system. The step-wise implementation will see all sites properly protected by June 2009.

The various serious chemical plant accidents experienced in China, especially in the Jiangsu Province, have raised chemical plant compliance requirements considerably in an attempt to bring this concern under control. New requirements are largely unheralded and not necessarily documented. We enjoy good relations with the regulators in both provinces and our sites, plants and systems are used as benchmarks by officials.

### Americas

Compliance initiatives in the US continue to be driven by the public's demand for increased legislative oversight of all aspects of business activities within the chemical sector. Reductions in air emissions remain a focus as the public perception is that emissions at any level are unacceptable. Process safety initiatives and focus remain strong. Securing physical manufacturing sites and transportation activities from threats of terroristic actions remains a real public concern. Legislation has been proposed to require federal oversight of these types of security activities but as of yet this initiative has not garnered broad enough support within the federal legislature. The US manufacturing sites continue to follow legislative developments and are in full compliance with the requirements currently in place. Recent evaluations of site emissions have led the locations to petition the respective regional compliance oversight agencies to consider reclassifying the sites from a major source of air emission to a minor source. This reclassification would provide relief from many of the more stringent regulatory requirements while continuing to maintain emissions at their present low levels.

### Australasia

A noise reduction programme has been implemented at the Penrose, New Zealand site. Of the five sources identified, three have been dealt with successfully. This project is ongoing.

Further testing of groundwater at the leased site at North Clayton, Victoria has been conducted by environmental consultants. The results have been used to model the flow characteristics of the hydrocarbon contaminants in the groundwater. The extent of the contamination is confined to an area directly below the leased property with only minimal excursion below an adjoining property. The results have been discussed with the Victorian EPA and a remediation plan is being prepared with the assistance of the environmental consultants and an independent EPA-approved Environmental Auditor. Upon agreement of the plan, the EPA will issue a formal clean-up notice to be implemented over the following 12 months. Provision has been made to cover the cost of this work.

Further testing of groundwater has also been undertaken by environmental consultants at the company's Cheltenham site in Victoria. The results confirmed the ongoing presence of hydrocarbons in groundwater. More extensive investigation is required to define the source and extent of the contamination and to model its behaviour in the groundwater. This work will commence in September 2006 and will enable the remediation options and environmental management options for the site to be identified and initiated during 2006/7. Provision has been made to cover the cost of this work.

Ongoing monitoring of localised hydrocarbon contamination in groundwater at Botany, NSW continued in 2005/6. The work was conducted by environmental consultants. It confirmed that localised contamination persists and that concentrations in one location close to the site boundary require corrective actions. The results have been discussed with the NSW EPA and a workplan is under preparation with the assistance of the environmental consultants and an independent, EPA-approved Environmental Auditor. The workplan will cover further investigative work to identify the source and spread of the contamination and will also propose initial remediation work. Upon agreement with the EPA, the workplan will form part of a formal Voluntary Investigation Agreement which will be implemented throughout 2006/7. Provision has been made to cover the cost of this work.

Following the decision to close the Seven Hills site in NSW, an investigation will be conducted to establish the extent of any soil and groundwater contamination at the site. This will occur as the various operations on the site are closed down. Provision has been made for the investigative work, including demolition and asbestos removal, and for potential remediation costs.

## Corporate Governance

The Managing Director receives a full Safety, Health and Environment report every month. This report is presented to the Board at each meeting and SHE is a standard agenda item. The SHE report forms part of the Group Operations Report and advises on all injuries, incidents and near misses and the appropriate corrective action. It also comments on general regulatory issues and licence conditions, emergency preparedness, health monitoring and SHE-related promotional activities as well as the results of internal and external audits.

# CORPORATE GOVERNANCE REPORT

## Role of Board of Directors

The Board of Directors (the Board) of Nuplex Industries Limited (the Company) is elected by shareholders to direct and supervise the management of the Company.

The Board establishes the strategic direction and objectives of the Company and sets the policy framework within which the Company will operate. The Board appoints the Managing Director, delegates appropriate authority for the management of the Company, and monitors management's performance on a regular basis.

A Board of Directors Charter that includes a list of functions reserved as Board responsibilities is available in the Investor Relations section of the Company's web site (www.nuplex.co.nz).

## Governance Principles

The Company is listed on the New Zealand and Australian Stock Exchanges. The Board has adopted the governance principles of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the NZX Corporate Governance and Best Practice Code and the New Zealand Securities Commission's Governance Principles and Guidelines (the Principles).

## Code of Conduct

The Board has prepared a policy to give guidance to its employees and Directors on how it expects them to conduct themselves when undertaking business on behalf of the Company. The Board has established a "Whistleblower" Policy to provide guidance and assistance to employees who may wish to disclose information that relates to a "serious wrongdoing" in the workplace.

A Code of Conduct and Ethics Policy is available in the Investor Relations section of the Company's web site.

## Trading in the Company's Shares

Directors and Officers of the Company and subsidiaries have been advised of the disclosure requirements of the Securities Markets Act 1988 and the Securities Markets (Disclosure of Relevant Interests by Directors and Officers) Regulations 2003. Directors and Officers are advised that they may only trade shares in the Company during particular periods following the disclosure of Annual and Half Yearly Reports with the consent of the Company Secretary.

Directors and Officers are also advised that they may not trade shares in the Company when they have knowledge or access to inside information.

## Board Size and Structure

The Board is comprised of five non-executive Directors. The Managing Director, John Hirst is currently the only executive Director. Non-executive Directors are selected to ensure that a broad range of skills and experience are available. One of the Directors will be appointed as Chairman.

The Board meets in accordance with a schedule prepared well in advance of the start of each calendar year, rotating between the Auckland Head Office and other overseas facilities. This enables Directors to become familiar with the Group's market environment, manufacturing operations and to meet employees. Board meetings follow procedures that ensure that all Directors have the necessary information to participate in an informed discussion on all agenda items. Senior managers make direct presentations to the Board on a rotational basis to give the Directors a broad exposure to management philosophies, capabilities and the key issues facing each business.

Any Director is entitled to obtain professional advice relating to the affairs of the Company or to his or her other responsibilities as a Director. The full provisions in this regard are set out in the Board of Directors Charter, the Audit Committee Charter and the Remuneration Committee Charter.

The Chairman, Fred Holland, who retired as Chief Executive of the Company on 31 December 2000 is not an independent Director in terms of clause 2.1 and 2.2 of the ASX principles of good corporate governance. Nevertheless, the Board considers that, given the importance of industry knowledge in our business, his reputation and high standing, and the need to sustain a successful culture in a group growing largely by industry consolidation, that he is the most appropriate person to chair the Board and that he should continue in that role.

The Board has established that all the other four non-executive Directors are independent after taking into consideration their associations as shareholders of the Company and directors or officers of other organisations. Directors' interests are disclosed in the Statutory Information section of this report on page 84.

The Board has instituted a formal system to review annually the performance of the Board and of the individual Directors. The Board meets each year to review the Company's Corporate Governance Policy and on a second occasion to review the company's strategic direction.

## Board Succession

During the year the Board commenced a process to appoint new Directors to allow for the retirement of current members of the Board. On 30 June 2006, Colin Martin resigned as a Director, having served on the Board since January 1995. Rob Aitken, of Sydney, Australia replaced Colin as a Director on 1 July 2006. Rob Aitken will stand for election at the Annual Meeting on 3 November 2006.

In order to facilitate a further replacement during 2007, the Board have nominated David Jackson of Auckland, New Zealand to stand for election as an additional Director. Voting on this appointment will take place at the Annual Meeting on 3 November 2006.

## Board Committees

The Chairman, Fred Holland, is an ex-officio member of all Board committees.

The Board has the following standing committees:

### Audit Committee

The Audit Committee comprises two non-executive Directors, one of whom is appointed as Chairman. The Committee meets a minimum of four times each year; the Managing Director and the Chief Financial Officer and the external auditors attend by invitation of the Chairman.

The committee has direct communication with and unrestricted access to the external and internal auditors and accountants.

The committee's responsibilities are:

- to oversee compliance with statutory financial reporting requirements
- to ensure that adequate internal controls are in place
- to advise the Board regarding accounting policies, practices and disclosure
- to review the scope and outcome of the external audit
- to review annual and half-yearly financial statements prior to approval by the Board.

The Committee reports the proceedings of each meeting to the Board.

The Charter of the Audit Committee is available in the Investor Relations section of the Company's web site (www.nuplex.co.nz).

The composition of the Committee during the last financial year was Bryan Kensington (Chair) and Colin Martin. Rob Aitken has replaced Colin Martin on this Committee from 1 July 2006.

### Remuneration Committee

The Remuneration Committee comprises two non-executive directors and the Managing Director and meets as required to review the remuneration packages of the Directors and the group of managers reporting directly to the Managing Director before making recommendations to the Board.

Remuneration packages are reviewed annually and independent external advice is used to ensure that remuneration is competitive with like organisations within the jurisdiction in which an employee resides.

Remuneration packages are a combination of cash and non-cash benefits. Packages for senior managers include a cash bonus opportunity linked to company performance in areas subject to the manager's control.

### Executive Salaries

The remuneration of the four highest paid officers of the Company for year ended 30 June 2006 was as follows:

| Name | Position Held | Total Employment Cost | Bonuses | Total Remuneration |
|---|---|---|---|---|
| John Hirst | Managing Director | A$700,000 | A$90,000 | A$790,000 |
| Graeme Storey | Chief Financial Officer | NZ$359,000 | NZ$20,000 | NZ$379,000 |
| Tony Cooke | Group Operations Manager | A$353,000 | A$20,000 | A$373,000 |
| Rob Harmsen | Group General Manager, Nuplex Resins | € 220,000 | € 14,389 | € 234,389 |

Total Employment Cost (TEC) includes the following components:

1. Cash salary.
2. The cost of the provision of a motor vehicle to a standard nominated by the Officer and approved by the Board.
3. Superannuation including compulsory and voluntary contributions.
4. Other non-cash benefits nominated by the Officer and approved by the Board.
5. Fringe benefits tax payable in respect to any component of TEC.

The Bonus of A$90,000 paid to the Managing Director, John Hirst, comprises A$50,000 awarded in respect to performance for year ended 30 June 2005 plus A$40,000 paid in respect to the successful completion of Non-Financial Objectives during the year ended 30 June 2006.

### Senior Managers' Incentive Scheme

Performance Share Rights (PSRs) have been allocated to the Managing Director, John Hirst, and other Senior Managers in accordance with the Senior Managers' Incentive Scheme as follows:

| | Allocated at 1 July 2005 | Total Allocation |
|---|---|---|
| John Hirst | 60,000 | 120,000 |
| Senior Managers | 136,035 | 231,435 |

The PSRs allocated above will be tested for vesting from 30 June 2008. PSRs will vest with Senior Managers on a graduated scale only if the growth in Total Shareholder Return equals or exceeds the growth in the ASX300 (excluding Property Trusts). Should any of the vesting criteria be satisfied at that point, then shares will be purchased by the Company on-market and allocated to Senior Managers.

Details of the Senior Managers Incentive Scheme are available in the Investor Relations section of the Company's web site (www.nuplex.co.nz) under Remuneration Committee.

The Charter of the Remuneration Committee is available in the Investor Relations section of the Company's web site (www.nuplex.co.nz).

The composition of the Committee is David Newton (Chair), Michael Wynter and John Hirst. The Chairman, Fred Holland, replaces John Hirst on the Committee for purposes of reviewing the remuneration of the Managing Director.

### Nomination Committee

The Nomination Committee was convened to consider the appointment of a replacement Director following the notice of resignation of Colin Martin.

The full Board constitutes the Nomination Committee. The Nomination Committee Charter is available in the Investor Relations section of the company's web site (www.nuplex.co.nz).

## Directors' Remuneration

### Annual Fees

The total fees payable to non-executive Directors was set at $650,000 by Ordinary Resolution of Shareholders at the Annual Meeting held on 29 October 2004.

The Board has resolved that the base fee per Director be $80,000 per annum plus allowances of $10,000 for committee chairpersons and $5,000 for committee members. The Board also resolved that the fee payable to the Board Chairman be $160,000 per annum.

Directors are to be paid the above amounts in the currency of their country of residence.

Remuneration paid to Directors during the year ended 30 June 2006 is disclosed in the Statutory Information section of this report on page 83.

### Retirement Allowances

The Board has resolved that payments under clause 12.4 of the Constitution will be crystallised at the average of the last three years' total remuneration up to 30 June 2004 plus an allowance for cost of living (CPI) adjustments. Retiring allowances will be paid to the non-executive Directors serving at that time on retirement in full, provided they have served at least six years as a Director and on a pro-rata basis for service less than six years.

Directors appointed to the Board after 30 June 2004 are not eligible to a retirement allowance.

## Organisational Structure

The Board has delegated to the Managing Director the conduct of the affairs and management responsibilities of the Company. Delegation is subject to matters reserved for Board approval as detailed in the Board of Directors Charter.

The business of the Company is organised into clearly defined operating divisions under the management of a profit-responsible General Manager reporting to the Managing Director. The operating performance of each division is separately reported to the Board each month to facilitate monitoring the health of each business.

## Internal Financial Control and Risk Management

The Board, advised by the Audit Committee, monitors and approves the Company's system of internal financial control which includes clearly defined policies controlling treasury operations, capital expenditure authorisation and risk management.

The Chief Financial Officer is responsible to the Managing Director for ensuring that all operations within the Company adhere to the board-approved financial control policies.

During the year, Ernst & Young reported to the Audit Committee on the effectiveness of the Group's internal controls.

The Audit Committee reviews the Internal Audit reports and responses from management, and ensures that any weaknesses in policies and practises are rectified.

The Board participates in the development of strategic plans, approves budgets and monitors performance monthly.

The Board monitors the engagement of the Company's auditors for additional professional advice, and will ensure that alternative advisors are appointed where appropriate.

The Board ensures that recommendations made by the internal and external auditors and other independent advisers are critically evaluated and applied where appropriate.

The Board satisfies itself that adequate external insurance cover is in place appropriate for the Company's size and risk profile.

The Board satisfies itself that adequate Health, Safety and Environmental Protection Policies and hazard assessments are in place and monitors performance.

## Communications and Disclosure

The Board has adopted a Communications and Disclosure Policy covering continuous disclosure obligations and the Board's policy in respect of communications with shareholders, analysts, media and other third parties. The Communications and Disclosure Policy is available in the Investor Relations section of the company's web site (www.nuplex.co.nz).

Information is communicated to shareholders through the Annual and Interim Reports and is available in the Investor relations section of the company's web site (www.nuplex.co.nz).

The Board complies with the continuous disclosure requirements of NZX and ASX.

The Board encourages full participation by shareholders at the annual meeting of the company.

## Governance Practices

The Board has reviewed its governance practices against the ASX Corporate Governance – Best Practice Guidelines, NZX Corporate Governance Best Practice Code and the NZ Securities Commission Principles and Guidelines of Corporate Governance and is compliant with these codes with the following exceptions:

ASX Principle 2.2 The Chairman should be an independent Director.

This issue has been covered above under Board Size and Structure.

ASX Principle 9.1 Disclosure of the salary of each of the five highest paid officers of the Company.

Salaries of the four highest paid officers of the company have been disclosed. Salaries of the next highest paid executive has not been disclosed to protect the confidentiality of remuneration paid to operational management.

# 2006 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

The Directors are pleased to present the Financial Statements of the Nuplex Group for the year ended 30 June 2006.

Fred Holland
Chairman
25 August 2006

Bryan Kensington
Director
25 August 2006

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IBC Directory

# AUDITORS' REPORT

To the shareholders of Nuplex Industries Limited

We have audited the financial statements on pages 46 to 80. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 52 to 55.

## Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

## Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

## Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Company and certain of its subsidiaries in relation to taxation and other audit-related services. These matters have not impaired our independence as auditors of the Company and Group. The firm has no other relationship with, or interest in, the Company or any of its subsidiaries.

## Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records;
- the financial statements on pages 46 to 80:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Company and Group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2006 and our unqualified opinion is expressed as at that date.

KPMG

KPMG
Auckland

# INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

| (NZ DOLLARS IN THOUSANDS) | NOTES | GROUP 2006 DISCONTINUED OPERATIONS | GROUP 2006 CONTINUING OPERATIONS | GROUP 2006 TOTAL OPERATIONS | GROUP 2005 DISCONTINUED OPERATIONS | GROUP 2005 CONTINUING OPERATIONS | GROUP 2005 TOTAL OPERATIONS |
|---|---|---|---|---|---|---|---|
| Sales revenue | | 13,337 | 1,287,586 | 1,300,923 | 29,860 | 898,687 | 928,547 |
| Cost of sales | | (9,894) | (1,019,502) | (1,029,396) | (21,487) | (692,387) | (713,874) |
| Gross profit | | 3,443 | 268,084 | 271,527 | 8,373 | 206,300 | 214,673 |
| Other operating income | 3 | 499 | 34,639 | 35,138 | - | 1,248 | 1,248 |
| Distribution expenses | | - | (66,956) | (66,956) | - | (52,914) | (52,914) |
| Marketing expenses | | (712) | (71,360) | (72,072) | (1,507) | (57,811) | (59,318) |
| Administrative expenses | | (917) | (51,352) | (52,269) | (1,914) | (38,377) | (40,291) |
| Other operating expenses | 4 | - | (37,084) | (37,084) | - | (2,215) | (2,215) |
| Operating profit before financing costs | | 2,313 | 75,971 | 78,284 | 4,952 | 56,231 | 61,183 |
| Financial income | | 162 | 6,742 | 6,904 | 267 | 4,725 | 4,992 |
| Financial expenses | | (224) | (20,653) | (20,877) | (412) | (17,451) | (17,863) |
| Net financing costs | 7 | (62) | (13,911) | (13,973) | (145) | (12,726) | (12,871) |
| Share of profits of associates | 13 | 54 | 1,002 | 1,056 | 121 | 1,684 | 1,805 |
| Profit before tax | | 2,305 | 63,062 | 65,367 | 4,928 | 45,189 | 50,117 |
| Income tax expense | 8 | (729) | (25,524) | (26,253) | (1,514) | (14,875) | (16,389) |
| Profit after tax but before gain on discontinued operations | | 1,576 | 37,538 | 39,114 | 3,414 | 30,314 | 33,728 |
| Gain on sale of environmental services businesses, net of tax | 9 | 24,722 | - | 24,722 | - | - | - |
| Profit for the year | | 26,298 | 37,538 | 63,836 | 3,414 | 30,314 | 33,728 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | 26,298 | 35,675 | 61,973 | 3,414 | 29,679 | 33,093 |
| Minority interests | | - | 1,863 | 1,863 | - | 635 | 635 |
| Basic earnings per share | 10 | 0.339 | 0.460 | 0.799 | 0.048 | 0.415 | 0.463 |
| Diluted earnings per share | 10 | 0.339 | 0.460 | 0.799 | 0.048 | 0.415 | 0.463 |
| Dividends per ordinary share (NZD) | 21 | | | 28.5 | | | 25.0 |

| | COMPANY (All continuing) | |
|---|---|---|
| | 2006 | 2005 |
| | TOTAL | TOTAL |
| | 129,263 | 132,844 |
| | (93,636) | (97,031) |
| | 35,627 | 35,813 |
| | 38,333 | 28,477 |
| | (7,411) | (7,200) |
| | (9,999) | (10,088) |
| | (8,021) | (7,187) |
| | (200) | (1,155) |
| | 48,329 | 38,660 |
| | 2,749 | 1,957 |
| | (8,102) | (8,496) |
| | (5,353) | (6,539) |
| | - | - |
| | 42,976 | 32,121 |
| | (2,430) | (2,104) |
| | 40,546 | 30,017 |
| | 5,637 | - |
| | 46,183 | 30,017 |
| | 46,183 | 30,017 |
| | - | - |

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

| (NZ DOLLARS IN THOUSANDS) | NOTES | GROUP | | | | | |
|---|---|---|---|---|---|---|---|
| | | ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | | | |
| | | SHARE CAPITAL | TRANSLATION RESERVE | RETAINED EARNINGS | TOTAL | MINORITY INTEREST | TOTAL EQUITY |
| Balance at 1 July 2005 | | 153,582 | 442 | 93,995 | 248,019 | 6,996 | 255,015 |
| Fair value of cash-flow hedges at 1 July 2005 | 30 | - | - | (777) | (777) | - | (777) |
| Opening equity as adjusted for adoption of IAS32/39 | | 153,582 | 442 | 93,218 | 247,242 | 6,996 | 254,238 |
| Changes in equity for the year ended 30 June 2006: | | | | | | | |
| Exchange translation difference | | - | 29,768 | - | 29,768 | 1,531 | 31,299 |
| Changes in fair value of cash-flow hedges | | - | - | 825 | 825 | - | 825 |
| Net income recognised directly in equity | | - | 29,768 | 825 | 30,593 | 1,531 | 32,124 |
| Profit for the year | | - | - | 61,973 | 61,973 | 1,863 | 63,836 |
| Total recognised income and expense for the year | | - | 29,768 | 62,798 | 92,566 | 3,394 | 95,960 |
| Shares issued | 21 | 8,201 | - | - | 8,201 | - | 8,201 |
| Dividends paid | 21 | - | - | (21,994) | (21,994) | (1,658) | (23,652) |
| Balance as at 30 June 2006 | | 161,783 | 30,210 | 134,022 | 326,015 | 8,732 | 334,747 |

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2004 | | 82,802 | - | 78,174 | 160,976 | - | 160,976 |
| Changes in equity for the year ended 30 June 2005: | | | | | | | |
| Exchange translation difference | | - | 442 | - | 442 | 160 | 602 |
| Net income recognised directly in equity | | - | 442 | - | 442 | 160 | 602 |
| Profit for the year | | - | - | 33,093 | 33,093 | 635 | 33,728 |
| Total recognised income and expense for the year | | - | 442 | 33,093 | 33,535 | 795 | 34,330 |
| Amalgamation of subsidiary | | - | - | - | - | - | - |
| Shares issued | 21 | 70,780 | - | - | 70,780 | - | 70,780 |
| Dividends paid | 21 | - | - | (17,272) | (17,272) | (619) | (17,891) |
| Minority interest arising on acquisition | | - | - | - | - | 6,820 | 6,820 |
| Balance as at 30 June 2005 | | 153,582 | 442 | 93,995 | 248,019 | 6,996 | 255,015 |

| COMPANY | | |
|---|---|---|
| ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | |
| SHARE CAPITAL | RETAINED EARNINGS | TOTAL |
| 153,582 | 65,577 | 219,159 |
| - | (177) | (177) |
| 153,582 | 65,400 | 218,982 |
| - | - | - |
| - | - | - |
| - | - | - |
| - | 46,183 | 46,183 |
| - | 46,183 | 46,183 |
| 8,201 | - | 8,201 |
| - | (21,994) | (21,994) |
| 161,783 | 89,589 | 251,372 |
| 82,802 | 51,368 | 134,170 |
| - | - | - |
| - | - | - |
| - | 30,017 | 30,017 |
| - | 30,017 | 30,017 |
| - | 1,464 | 1,464 |
| 70,780 | - | 70,780 |
| - | (17,272) | (17,272) |
| - | - | - |
| 153,582 | 65,577 | 219,159 |

# BALANCE SHEETS

AS AT 30 JUNE 2006

| (NZ DOLLARS IN THOUSANDS) | NOTES | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|---|
| Equity attributable to members of the parent company | | 326,015 | 248,019 | 251,372 | 219,159 |
| Minority interests | | 8,732 | 6,996 | - | - |
| **Total Equity** | | 334,747 | 255,015 | 251,372 | 219,159 |
| Property, plant and equipment | 15 | 318,139 | 309,103 | 21,466 | 22,531 |
| Intangible assets | 16 | 127,344 | 86,364 | 2,305 | 2,289 |
| Investments accounted for using the equity method | 13 | 2,551 | 3,899 | - | - |
| Investments in subsidiaries | | - | - | 176,824 | 142,938 |
| Trade and other receivables | 12 | - | 290 | 88,462 | 84,333 |
| Deferred tax asset | 14 | 9,567 | 4,785 | 773 | 713 |
| **Non-current Assets** | | 457,601 | 404,441 | 289,830 | 252,804 |
| Inventories | 11 | 216,360 | 178,024 | 22,669 | 22,202 |
| Trade and other receivables | 12 | 296,961 | 235,062 | 22,457 | 23,029 |
| Income tax receivable | | 3,388 | 842 | 1,721 | 1,442 |
| Cash and cash equivalents | | 36,742 | 58,771 | 6,162 | 10,858 |
| **Current Assets** | | 553,451 | 472,699 | 53,009 | 57,531 |
| **Total Assets** | | 1,011,052 | 877,140 | 342,839 | 310,335 |
| Borrowings | 18 | 344,587 | 199,143 | 75,962 | 74,389 |
| Employee provisions | 19 | 27,271 | 58,088 | 1,660 | 2,092 |
| Provisions | 20 | 3,554 | - | - | - |
| Deferred tax liability | 14 | 23,446 | 11,781 | - | - |
| **Non-current Liabilities** | | 398,858 | 269,012 | 77,622 | 76,481 |
| Borrowings | 18 | 835 | 147,631 | 85 | 57 |
| Trade and other payables | 17 | 220,769 | 183,606 | 12,634 | 13,500 |
| Employee provisions | 19 | 32,141 | 16,734 | 1,126 | 1,138 |
| Provisions | 20 | 10,746 | 2,397 | - | - |
| Income tax payable | | 12,956 | 2,745 | - | - |
| **Current Liabilities** | | 277,447 | 353,113 | 13,845 | 14,695 |
| **Total Liabilities** | | 676,305 | 622,125 | 91,467 | 91,176 |
| **Total Net Assets** | | 334,747 | 255,015 | 251,372 | 219,159 |

# CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| (NZ DOLLARS IN THOUSANDS) | NOTES | 2006 | 2005 | 2006 | 2005 |
| Receipts from customers | | 1,305,387 | 913,380 | 130,154 | 130,462 |
| Interest received | | 1,680 | 2,333 | 1,066 | 1,543 |
| Payments to suppliers and employees | | (1,218,253) | (822,828) | (117,511) | (121,289) |
| Interest paid | | (20,327) | (17,205) | (7,415) | (7,020) |
| Dividends received | | 2,112 | 2,120 | 28,120 | 13,054 |
| Income taxes paid | | (22,119) | (17,044) | (2,287) | (3,738) |
| Net cash from operating activities | 29 | 48,480 | 60,756 | 32,127 | 13,012 |
| Disposal of fixed assets | | 3,773 | 151 | 92 | 82 |
| Acquisition of fixed assets | | (16,768) | (19,647) | (1,013) | (4,542) |
| Loans to subsidiaries | | - | - | (8,652) | (63,804) |
| Loans repaid by associates | | - | 270 | - | 228 |
| Purchases of businesses | 27 | (46,924) | (215,888) | (47,687) | (2,650) |
| Disposal of environmental services businesses | 9 | 51,877 | - | 34,818 | - |
| Net cash from investing activities | | (8,042) | (235,114) | (22,442) | (70,686) |
| Proceeds from issue of shares | | - | 70,780 | - | 70,780 |
| Proceeds from borrowings | | 119,243 | 157,973 | - | - |
| Repayment of borrowings | | (160,429) | (4,443) | (86) | (106) |
| Dividends paid | | (13,793) | (17,891) | (13,793) | (17,272) |
| Supplementary dividends paid | | (502) | (261) | (502) | (261) |
| Cash from amalgamation of subsidiary | | - | - | - | 2,446 |
| Net cash from financing activities | | (55,481) | 206,158 | (14,381) | 55,587 |
| Increase/(decrease) in cash | | (15,043) | 31,800 | (4,696) | (2,087) |
| Cash at 1 July | | 58,771 | 27,098 | 10,858 | 12,945 |
| Exchange rate adjustment | | (6,986) | (127) | - | - |
| Cash at 30 June | | 36,742 | 58,771 | 6,162 | 10,858 |
| Comprising: | | | | | |
| Cash balances | | 35,513 | 35,754 | 4,962 | 5,505 |
| Cash on call deposit | | 1,229 | 23,017 | 1,200 | 5,353 |

# STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2006

1. Statement of significant accounting policies

Nuplex Industries Limited is a Company domiciled in New Zealand. The consolidated financial statements of the Company comprise the Company and its subsidiaries (the 'Group') and the Group's interest in associated entities. The Group is a profit-orientated entity.

## (A) STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand, applying the New Zealand equivalents of International Financial Reporting Standards (NZIFRS). These are the Group's and Company's first annual financial statements prepared under NZIFRS, and NZIFRS 1, First-time adoption of New Zealand equivalents to International Financial Reporting Standards, has been applied.

The accounting policies are not consistent with those used in the June 2005 financial report, as the June 2005 financial statements were prepared in accordance with previous New Zealand Generally Accepted Accounting Practices (NZGAAP). An explanation of how the transition to NZIFRS has affected the reported financial position and income statement of the Group is provided in note 30. This note includes reconciliations of equity and profit for comparative periods reported under NZGAAP to those reported for those periods under NZIFRS.

The preparation of the financial statements in accordance with NZIFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods in these financial statements, with the exception of the fair valuation of derivative instruments which was not carried out in 2005 (see (t) below). They have also been applied in preparing an opening NZIFRS balance sheet at 1 July 2004 for the purposes of the transition to NZIFRS, as required by NZIFRS 1.

The Group has elected to comply with the Amendment to International Accounting Standard No. 19 Employee Benefits, prior to its mandatory implementation date. This has not changed the measurement of the Group's results, but has resulted in increased disclosure obligations as per note 19. In addition, the International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective. The Group has not yet applied these in preparing these financial statements, although the application of these standards, amendments and interpretations would require further disclosures but is not expected to have a material impact on the Group's results.

## (B) BASIS OF PREPARATION

The financial statements of the Group and Company comply with the Financial Reporting Act 1993 and the Companies Act 1993. These financial statements are presented in New Zealand dollars, except where stated otherwise, rounded to the nearest thousand. They are prepared on the historical cost basis except that previously revalued fixed assets' carrying values at 30 June 2004 have been deemed as cost, and the following assets and liabilities are stated at their fair values: derivative financial instruments, and deferred acquisition settlements payable.

The preparation of financial statements in conformity with NZIFRS's requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The accounting policies have been applied consistently by Group entities.

## (C) BASIS OF CONSOLIDATION

### Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in the associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

### Transactions eliminated on consolidation

IntraGroup balances and any unrealised gains or losses or income and expenses arising from IntraGroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## (D) FOREIGN CURRENCY

### Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair values were determined.

### Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to New Zealand dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. This would normally be the average foreign exchange rate for the reporting period, or such shorter period for an entity or business acquired or disposed of during the period.

### Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and the related hedges are taken to the translation reserve. They are released into the income statement upon disposal.

## (E) REVENUE

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services is recognised in the income statement when the service is provided.

## (F) EXPENSES

### Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

### Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Interest income is recognised in the income statement as it accrues, using the effective interest rate method. Dividend income is recognised in the income statement on the date the entity's right to receive payment is established, which is when the dividend is declared.

## (G) INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except if it relates to items recognised directly in equity, in which case the income tax is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates at the balance sheet date, and any adjustments to tax payable in prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for taxation purposes; the initial recognition of assets and liabilities that affect neither accounting; nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected realisation or settlement of the carrying amount of assets and liabilities, using tax rates at balance date, or, if known, tax rates at the expected time of realisation or settlement. A deferred tax asset is recognised only to the extent that it is probable that future tax profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

## (H) PROPERTY, PLANT AND EQUIPMENT

### Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that had been revalued to fair value on or before 1 July 2004, the date of transition to NZIFRS, are measured on the basis of deemed cost going forward, being the revalued amount at the date of transition to NZIFRS.

### Leased assets

Leases in terms of which Nuplex assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases.

### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and land-use rights | 20–50 years |
| Plant and equipment | 5–20 years |
| Motor vehicles | 5 years |
| Fixtures and fittings | 10 years |
| Office equipment | 3–5 years |

## (I) INTANGIBLE ASSETS

### Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates, and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at that date and hence goodwill is included on the basis of its carrying value on transition date. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate. Negative goodwill arising on an acquisition is recognised directly in the income statement.

### Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense as incurred. Expenditure on product or process development activities, whereby research findings are applied to the development of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised in the income statement as an expense as incurred.

### Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

### Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets. Goodwill and intangible assets with an indefinite useful life are tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

| | |
|---|---|
| intellectual property | up to 15 years |
| capitalised development costs | up to 5 years |

## (J) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost less impairment losses.

(K) INVENTORIES

Inventories are stated at lower of cost and net realisable value with due allowance for rework and/or obsolescence. Raw materials, packaging and inventories purchased for resale are valued on a weighted average cost basis. Manufactured inventories and work in progress are valued at the cost of materials plus direct labour and factory overheads based on normal operating capacity, including all costs of bringing items to their present location and condition.

(L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included for the purposes of the statement of cash flows.

(M) IMPAIRMENT

The carrying amounts of the Group's assets, other than inventories and deferred tax assets' are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. These classes of assets were tested for impairment at 1 July 2004, the date of transition to NZIFRS, even though no indication of impairment existed. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of other assets in the unit on a pro-rata basis. The recoverable amount of other assets is the greater of their net selling price and value in use.

(N) EQUITY

Share capital is recognised at the fair value of the consideration received by the Company. Transaction costs attributable to the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received. Dividends are recognised as a liability in the period in which they are declared.

(O) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributed transaction costs, and the attributed transaction costs are amortised over the period of the borrowings on an effective interest basis.

(P) EMPLOYEE BENEFITS

Share-based transactions

Performance share rights are granted to senior management. The fair value of the rights is recognised as an employee expense with a corresponding increase in liabilities. The fair value is measured at the grant date and spread over the vesting period, taking into account the terms and conditions upon which the rights were granted.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised immediately as an expense in the income statement. All actuarial gains and losses as at 1 July 2004, the date of transition to NZIFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 July 2004 in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Long-term service benefits

The Group's obligation in respect of long-term service benefits, other than pension plans, is the amount of the future benefit, including on-costs, and discounted to present value, that employees have earned in return for their service in the current and prior periods.

Other

Vested sick leave, annual leave and bonuses are measured at their nominal amounts, based on remuneration rates which are expected to be paid when the liability is settled. These amounts are disclosed in current payables.

(Q) PROVISIONS

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(R) PAYABLES

Liabilities for trade payables and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed.

(S) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment) or in providing products and services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

(T) FINANCIAL INSTRUMENTS

Derivative financial instruments (policy for 2006)

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at fair value (transaction price). Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where the derivatives qualify for hedge accounting, as described in policy (U).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Derivative financial instruments (policy for 2005)
Financial instruments that are hedges of specific items or economic exposures are recognised on the same basis as the underlying hedged items. The net differential paid or received on interest rate swaps is recognised as a component of interest expense or revenue over the period of the agreement.

(U) HEDGING

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the underlying exposure impacts the income statement. The ineffective part of any gain or loss is recognised immediately in the income statement.

Fair value hedges
Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedges of net investments in foreign operations
The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement.

(V) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS
Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal Group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal Groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 2. SEGMENT ANALYSES

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

### Business segments

Resins: Global manufacture of synthetic resins for regional markets. Distribution of complementary functional materials.

Specialties: Manufacture and distribution of a range of functional materials for regional markets. Manufacture of resin based flooring and building products. Distribution of related agency products and resilient flooring in NZ. Manufacture of light-weight plasters in Australasia.

Environmental Services (Discontinued): Collection and treatment of liquid, hazardous, medical and quarantine wastes in Australasia. Distribution and servicing of re-usable medical sharps disposal systems.

### Geographic segments

In presenting information on the basis of geographic segments, segment revenue is based on the geographic location of customers.

Segment assets are based on the geographic location of the assets.

| BUSINESS SEGMENTS 2006 | RESINS | SPECIALTIES | ENVIRONMENTAL SERVICES (discontinued) | ELIMINATIONS | TOTAL GROUP | LESS: ENVIRONMENTAL SERVICES (discontinued) | TOTAL GROUP (Continuing Operations) |
|---|---|---|---|---|---|---|---|
| Sales to outside customers | 1,003,870 | 283,716 | 13,337 | - | 1,300,923 | (13,337) | 1,287,586 |
| Inter-segment sales | 2,170 | 3,585 | 543 | (6,298) | - | (543) | (543) |
| Segment sales | 1,006,040 | 287,301 | 13,880 | (6,298) | 1,300,923 | (13,880) | 1,287,043 |
| EBITDA | 86,308 | 14,092 | 3,035 | - | 103,435 | (3,035) | 100,400 |
| Depreciation | (18,990) | (2,123) | (722) | - | (21,835) | 722 | (21,113) |
| Segment result | 67,318 | 11,969 | 2,313 | - | 81,600 | (2,313) | 79,287 |
| Interest received | | | | | 1,687 | 63 | 1,750 |
| Interest paid | | | | | (20,877) | - | (20,877) |
| Share of profits of associates | | | | | 1,056 | (54) | 1,002 |
| Minority interest | | | | | (1,863) | - | (1,863) |
| Tax on operating profits | | | | | (23,589) | 729 | (22,860) |
| Operating profit after tax | | | | | 38,014 | (1,576) | 36,438 |
| Unusual items | | | | | 26,552 | (24,722) | 1,830 |
| Amortisation of intangibles | | | | | (2,593) | - | (2,593) |
| Net profit attributable to equity holders of the parent | | | | | 61,973 | (26,298) | 35,675 |
| Assets | 821,484 | 139,871 | - | - | 961,355 | | |
| Unallocated assets | | | | | 49,697 | | |
| | | | | | 1,011,052 | | |
| Liabilities | 230,907 | 63,572 | - | - | 294,479 | | |
| Unallocated liabilities | | | | | 381,826 | | |
| | | | | | 676,305 | | |
| Other segment information | | | | | | | |
| Equity accounted investments included in segment assets | 245 | 2,306 | - | - | 2,551 | | |
| Capital expenditure and acquisitions | 13,435 | 41,338 | 1,890 | - | 56,663 | | |

| GEOGRAPHIC SEGMENTS 2006 | NEW ZEALAND | AUSTRALIA | ASIA | EUROPE | AMERICAS | TOTAL GROUP |
|---|---|---|---|---|---|---|
| Sales by destination | 159,900 | 498,476 | 175,094 | 327,192 | 140,261 | 1,300,923 |
| Assets | 133,384 | 382,186 | 93,939 | 317,222 | 84,321 | 1,011,052 |
| Capital expenditure | 42,873 | 5,842 | 3,793 | 3,584 | 572 | 56,663 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 2. SEGMENT ANALYSES (continued)

| BUSINESS SEGMENTS 2005 | RESINS | SPECIALTIES | ENVIRONMENTAL SERVICES (discontinued) | ELIMINATIONS | TOTAL GROUP | LESS: ENVIRONMENTAL SERVICES (discontinued) | TOTAL GROUP (Continuing Operations) |
|---|---|---|---|---|---|---|---|
| Sales to outside customers | 662,631 | 236,056 | 29,860 | - | 928,547 | (29,860) | 898,687 |
| Inter-segment sales | 2,202 | 1,118 | 541 | (3,861) | - | (541) | (541) |
| Segment sales | 664,833 | 237,174 | 30,401 | (3,861) | 928,547 | (30,401) | 898,146 |
| EBITDA | 61,000 | 13,837 | 6,917 | - | 81,754 | (6,917) | 74,837 |
| Depreciation | (13,821) | (2,168) | (1,851) | - | (17,840) | 1,851 | (15,989) |
| Segment result | 47,179 | 11,669 | 5,066 | - | 63,914 | (5,066) | 58,848 |
| Interest received | | | | | 2,333 | 145 | 2,478 |
| Interest paid | | | | | (17,863) | - | (17,863) |
| Share of profits of associates | | | | | 1,805 | (121) | 1,684 |
| Minority interest | | | | | (635) | - | (635) |
| Tax on operating profits | | | | | (16,389) | 1,514 | (14,875) |
| Operating profit after tax | | | | | 33,165 | (3,528) | 29,637 |
| Unusual items | | | | | 1,263 | 114 | 1,377 |
| Amortisation | | | | | (1,335) | - | (1,335) |
| Net profit attributable to equity holders of the parent | | | | | 33,093 | (3,414) | 29,679 |
| Assets | 654,454 | 125,404 | 32,885 | - | 812,742 | (32,885) | 779,857 |
| Unallocated assets | | | | | 64,398 | | |
| | | | | | 877,140 | | |
| Liabilities | 218,485 | 37,665 | 4,675 | - | 260,825 | (4,675) | 256,150 |
| Unallocated liabilities | | | | | 361,300 | | |
| | | | | | 622,125 | | |
| Other segment information | | | | | | | |
| Equity accounted investments included in segment assets | 294 | 2,945 | 660 | - | 3,899 | | |
| Capital expenditure and acquisitions | 79,566 | 2,403 | 3,847 | - | 85,816 | | |

| GEOGRAPHIC SEGMENTS 2005 | NEW ZEALAND | AUSTRALIA | ASIA | EUROPE | AMERICAS | TOTAL GROUP |
|---|---|---|---|---|---|---|
| Sales by destination | 151,795 | 458,824 | 100,861 | 158,255 | 58,812 | 928,547 |
| Assets | 111,901 | 343,533 | 90,407 | 263,629 | 67,670 | 877,140 |
| Capital expenditure | 49,790 | 5,820 | 5,286 | 24,340 | 580 | 85,815 |

## 3. OTHER INCOME

| (NZ DOLLARS IN THOUSANDS) | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2006 | 2005 | 2006 | 2005 |
| Net gain on disposal of property, plant and equipment | | 483 | 107 | 85 | 74 |
| Dividends received from subsidiaries | | - | - | 37,559 | 27,070 |
| Commissions received | | 527 | 310 | - | - |
| Rental income received | | 751 | 356 | - | - |
| Compensation payments received | | 450 | - | - | - |
| Employee provisions released | 19 | 486 | - | 486 | - |
| Change in value of defined benefit obligations | 19 | 32,334 | - | - | - |
| Income received from subsidiaries | | - | - | 107 | 1,253 |
| Other | | 107 | 475 | 96 | 80 |
| | | 35,138 | 1,248 | 38,333 | 28,477 |

**Change in value of defined benefit obligations**

As of 1 January 2006, Nuplex introduced a new pension plan in The Netherlands. The new plan is a defined contribution plan where the previous pension plan was a defined benefit plan. The previous plan was closed for Nuplex in The Netherlands concurrent with the opening of the new plan. The amount disclosed above is the accounting gain on the settlement of the previous plan.

## 4. OTHER EXPENSES

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Loss on sale of fixed assets | 46 | - | - | - |
| Impairment loss on goodwill | 1,116 | - | - | - |
| Site remediation costs incurred | 1,343 | - | - | - |
| Restructuring costs | 29,663 | - | 200 | - |
| Write-off of costs related to acquisition that did not proceed | - | 1,155 | - | 1,155 |
| Amortisation of intellectual property | 2,143 | 1,055 | - | - |
| Other | 2,773 | 5 | - | - |
| | 37,084 | 2,215 | 200 | 1,155 |

### Restructuring costs

Restructuring costs include the following:

### Seven Hills, Australia

On 30 June 2006, Nuplex announced it would be ceasing operations at its Seven Hills site in Australia. Costs of redundancies, plant write-downs, site remediations and stock write-downs have been provided for totalling AUD18,058,000.

### Coating Resins Europe

The operations of Coating Resins Netherlands are in the process of being restructured, and the associated redundancy costs of EUR3,300,000 have been provided. A portion of the Group's UK operation is in the process of being transferred to The Netherlands, and associated costs of GBP1,215,000 have been recognised with respect to redundancies and fixed asset write-downs.

## 5. PERSONNEL EXPENSES

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Wages and salaries | 124,639 | 97,837 | 13,977 | 13,944 |
| Compulsory social security contributions | 7,493 | 7,616 | 535 | 443 |
| Contributions to defined contribution plans | 10,951 | 4,856 | 247 | 235 |
| Increase in liability for long service leave | 1,682 | 1,259 | 116 | 98 |
| Performance share rights | 488 | 235 | 86 | 46 |
| Other benefits | 3,990 | 2,307 | - | - |
| | 149,243 | 114,110 | 14,961 | 14,766 |

## 6. AUDITORS' REMUNERATION

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Audit services | | | | |
| Auditors of the Company | | | | |
| KPMG New Zealand: | | | | |
| Audit and review of financial reports | 390 | 386 | 345 | 320 |
| Overseas KPMG Firms: | | | | |
| Audit and review of financial reports | 944 | 818 | - | - |
| | 1,334 | 1,204 | 345 | 320 |
| Other auditors | | | | |
| Audit and review of financial reports | 21 | 31 | - | - |
| | 1,355 | 1,235 | 345 | 320 |
| Other services | | | | |
| Auditors of the Company | | | | |
| KPMG New Zealand: | | | | |
| Taxation services | 390 | 105 | 373 | 91 |
| IFRS services | 99 | 104 | 79 | 104 |
| Overseas KPMG Firms: | | | | |
| Taxation Services | 371 | 885 | - | - |
| Other services | 62 | - | - | - |
| | 922 | 1,094 | 452 | 195 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 7. NET FINANCING COSTS

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Interest income from outside the group | 1,687 | 2,333 | 670 | 1,543 |
| Interest income from subsidiaries | - | - | 669 | 414 |
| Foreign exchange gain | 5,217 | 2,659 | 1,410 | - |
| Financial income | 6,904 | 4,992 | 2,749 | 1,957 |
| Interest expense | 20,877 | 17,863 | 8,102 | 7,678 |
| Foreign exchange loss | - | - | - | 818 |
| Financial expenses | 20,877 | 17,863 | 8,102 | 8,496 |
| Net financing costs | 13,973 | 12,871 | 5,353 | 6,539 |

## 8. INCOME TAX EXPENSE

### Recognised in the income statement

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Current tax expense** | | | | |
| Current year | 23,282 | 17,464 | 2,492 | 2,828 |
| Adjustments for prior years | (472) | (432) | (90) | (445) |
| | 22,810 | 17,032 | 2,402 | 2,383 |
| **Deferred tax expense** | | | | |
| Temporary differences | 3,830 | (643) | 28 | (279) |
| Reduction in tax rate | (387) | - | - | - |
| | 3,443 | (643) | 28 | (279) |
| Total income tax expense in income statement | 26,253 | 16,389 | 2,430 | 2,104 |
| Attributable to: | | | | |
| Continuing operations | 25,524 | 14,875 | 2,430 | 2,104 |
| Discontinuing operations | 729 | 1,514 | - | - |
| | 26,253 | 16,389 | 2,430 | 2,104 |

The reduction in tax rate disclosed above reflects the reduction in current year tax rates in The Netherlands from 30% to 29.6% and in the US from 40% to 34%.

### Reconciliation between tax expense and pre-tax net profit

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Profit before tax continuing operations | 63,062 | 45,189 | 42,976 | 32,121 |
| Profit before tax discontinued operations | 2,305 | 4,928 | - | - |
| Profit before tax | 65,367 | 50,117 | 42,976 | 32,121 |
| Income tax using the New Zealand corporate tax rate of 33% (2005: 33%) | 21,571 | 16,539 | 14,182 | 10,600 |
| Increase in income tax expense due to: | | | | |
| Non-deductible expenses | 1,281 | 53 | 65 | 57 |
| CFC Attributed income | 1,993 | 968 | 667 | 403 |
| Write-off of costs related to acquisition that did not proceed | - | 422 | - | 422 |
| Write-off of loan | - | 454 | - | - |
| Tax losses not recognised | 4,230 | 1,033 | - | - |
| Decrease in income tax expense due to: | | | | |
| Dividends from subsidiaries | - | - | (12,394) | (8,933) |
| Release of provision for write-down of investment | - | (462) | - | - |
| Effect on tax rate in foreign jurisdictions (rates decreased) | (1,892) | (798) | - | - |
| Equity earnings of associates | (316) | (698) | - | - |
| Tax consolidation uplift | - | (690) | - | - |
| Tax incentives not recognised in the income statement | (142) | - | - | - |
| Under / (over) provided in prior years | (472) | (432) | (90) | (445) |
| Income tax expense on pre-tax net profit | 26,253 | 16,389 | 2,430 | 2,104 |

## 8. INCOME TAX EXPENSE (continued)

Deferred tax recognised directly in equity

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Fair valuation of hedge-accounted interest rate swaps | 376 | - | - | - |
| | 376 | - | - | - |

## 9. DISCONTINUED OPERATIONS

On 1 December 2005, the Group sold its Environmental Services group which included Nuplex Medismart Limited, Nuplex Healthcare Waste Limited, United Environmental Limited and Nuplex Special Waste Pty Limited. These companies were sold for cash to Transpacific Industries, an Australian-based public company.

The results of the entities disposed of and the gain on disposal and tax thereon have been disclosed as discontinued on the face of the consolidated income statement.

During the year ended 30 June 2006, the environmental services group had cash inflows from operating activities of NZD1,902,000 (2005: NZD5,159,000), cash inflows from investing activities of NZD49,981,000 (2005: outflow NZD3,826,000) and cash outflows from financing activities of nil (2005: NZD198,000).

The assets and liabilities disposed of are as follows:

| (NZ DOLLARS IN THOUSANDS) | GROUP | COMPANY |
|---|---|---|
| | 2006 | 2006 |
| Fixed assets | 18,228 | - |
| Intangibles | 6,167 | - |
| Investments | 714 | 13,801 |
| Future income tax benefit | 962 | - |
| Inventories | 197 | - |
| Receivables | 5,145 | 15,439 |
| Cash | 1,126 | - |
| Non-current payables | (215) | - |
| Current payables | (4,568) | (59) |
| Borrowings | (303) | - |
| Current provisions | (217) | - |
| Exchange gain on settlement | (965) | - |
| Net assets and liabilities | 26,271 | 29,181 |
| Disposal costs | (632) | - |
| Cash consideration | 53,635 | 34,818 |
| Consideration receivable | 2,693 | - |
| Profit on disposal before tax | 29,425 | 5,637 |
| Tax on profit | (4,703) | - |
| Profit on disposal after tax | 24,722 | 5,637 |

## 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on:

| (NZ DOLLARS IN THOUSANDS) | GROUP | |
|---|---|---|
| | 2006 | 2005 |
| Net surplus attributable to ordinary shareholders | 61,973 | 33,093 |
| Weighted average number of ordinary shares: | | |
| Ordinary shares on issue at 1 July | 76,683 | 62,076 |
| Dividend reinvestment plan shares issued 15 October 2005 | 708 | - |
| Dividend reinvestment plan shares issued 7 April 2006 | 174 | - |
| Purchase plan shares issued 23 October 2004 | - | 5,232 |
| Purchase plan shares issued 1 November 2004 | - | 2,553 |
| Shareholder purchase plan shares issued 13 December 2004 | - | 1,667 |
| | 77,565 | 71,528 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 11. INVENTORIES

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Raw materials and consumables | 58,698 | 52,663 | 6,214 | 6,386 |
| Work in progress | 3,220 | 2,147 | - | - |
| Finished goods | 162,963 | 130,115 | 17,396 | 16,720 |
| Provision for stock obsolescence | (8,521) | (6,901) | (941) | (904) |
| | 216,360 | 178,024 | 22,669 | 22,202 |

## 12. TRADE AND OTHER RECEIVABLES

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Current | | | | |
| Trade and other receivables and prepayments | 296,502 | 235,062 | 21,899 | 22,303 |
| Receivables due from controlled entities | - | - | 353 | 726 |
| Fair value derivatives | 459 | - | 205 | - |
| | 296,961 | 235,062 | 22,457 | 23,029 |
| Non-current | | | | |
| Loans to controlled entities | - | - | 88,462 | 84,043 |
| Loans to associates | - | 290 | - | 290 |
| | - | 290 | 88,462 | 84,333 |

Trade receivables are shown net of impairment write-downs amounting to NZD3,091,000 (2005: 2,495,000) for the Group and NZD209,000 (2005: 325,000) for the Company.

## 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Investments in associates

The group accounts for investments in associates using the equity method.

The group has the following investments in associates:

| | PRINCIPAL ACTIVITIES | COUNTRY | REPORTING DATE | OWNERSHIP | |
|---|---|---|---|---|---|
| | | | | 2006 | 2005 |
| Medical Waste (Wellington) Limited | Collection and treatment of medical and quarantine waste | New Zealand | 30 Jun | 0% | 50% |
| Daniels Sharpsmart (NZ) Limited | Distribution of sharps containers | New Zealand | 30 Jun | 0% | 50% |
| Quaker Chemical (Australia) Pty Limited | Distributor of specialty products | Australia | 31 Dec | 49% | 49% |
| Octel Valvemaster Limited | Distributor of specialty products | UK | 31 Dec | 50% | 50% |
| Synthese (Thailand) Co Limited | Manufacture and distribution of synthetic resins | Thailand | 31 Dec | 45% | 45% |

| (NZ DOLLARS IN THOUSANDS) | REVENUES (100%) | PROFIT/(LOSS) (100%) | SHARE OF ASSOCIATES NET PROFIT/(LOSS) RECOGNISED | TOTAL ASSETS (100%) | TOTAL LIABILITIES (100%) | NET ASSETS AS REPORTED BY ASSOCIATES (100%) | SHARE OF ASSOCIATE'S NET ASSETS |
|---|---|---|---|---|---|---|---|
| 2006 | | | | | | | |
| Medical Waste (Wellington) Limited | 654 | 85 | 42 | - | - | - | - |
| Daniels Sharpsmart (NZ) Limited | 470 | 24 | 12 | - | - | - | - |
| Quaker Chemical (Australia) Pty Limited | 11,340 | 1,739 | 852 | 6,550 | 2,376 | 4,175 | 2,047 |
| Octel Valvemaster Limited | 3,498 | 482 | 241 | 1,237 | 719 | 518 | 259 |
| Synthese (Thailand) Co Limited | 22,292 | (202) | (91) | 13,505 | 12,055 | 1,450 | 245 |
| | 38,254 | 2,128 | 1,056 | 21,292 | 15,150 | 6,143 | 2,551 |
| 2005 | | | | | | | |
| Medical Waste (Wellington) Limited | 1,422 | 174 | 87 | 1,404 | 121 | 1,283 | 642 |
| Daniels Sharpsmart (NZ) Limited | 1,043 | 78 | 34 | 797 | 760 | 37 | 18 |
| Quaker Chemical (Australia) Pty Limited | 12,334 | 2,706 | 1,326 | 7,918 | 2,633 | 5,285 | 2,592 |
| Octel Valvemaster Limited | 3,189 | 322 | 161 | 859 | 152 | 707 | 353 |
| Synthese (Thailand) Co Limited | 12,558 | 438 | 197 | 10,888 | 9,554 | 1,334 | 294 |
| | 30,546 | 3,718 | 1,805 | 21,866 | 13,220 | 8,646 | 3,899 |

## 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

### Results of associates

| (NZ DOLLARS IN THOUSANDS) | GROUP | |
|---|---|---|
| | 2006 | 2005 |
| Share of associate profit before income tax | 1,551 | 2,502 |
| Share of income tax expense | (495) | (697) |
| Share of associates net profit as disclosed by associates | 1,056 | 1,805 |
| Share of associates net profit accounted for using the equity method | 1,056 | 1,805 |

### Reconciliation of investment balance

| (NZ DOLLARS IN THOUSANDS) | GROUP | |
|---|---|---|
| | 2006 | 2005 |
| Balance at 1 July | 3,899 | 4,118 |
| Share of associates net profit/(loss) | 1,056 | 1,805 |
| Dividends received | (2,112) | (2,120) |
| Acquisition of business assets | - | 100 |
| Disposal of business assets | (616) | - |
| Exchange translation difference | 324 | (4) |
| Balance at 30 June | 2,551 | 3,899 |

## 14. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | | |
|---|---|---|---|---|
| | ASSETS | | LIABILITIES | |
| | 2006 | 2005 | 2006 | 2005 |
| Property, plant and equipment | 44 | 308 | 27,516 | 27,929 |
| Intangible assets | 1,497 | - | 8,887 | 6,068 |
| Receivables | 622 | 1,164 | 292 | - |
| Inventories | 1,726 | 448 | - | 299 |
| Employee benefits | 14,575 | 20,429 | - | - |
| Payables | 571 | 650 | - | - |
| Provisions | 2,803 | 620 | - | - |
| Other items | 1,079 | 517 | 101 | 1,518 |
| Tax value of loss carry-forwards | - | 4,682 | - | - |
| Tax assets / liabilities | 22,917 | 28,818 | 36,796 | 35,814 |
| Set off of tax | (13,350) | (24,033) | (13,350) | (24,033) |
| Net tax assets / liabilities | 9,567 | 4,785 | 23,446 | 11,781 |

| (NZ DOLLARS IN THOUSANDS) | COMPANY | | | |
|---|---|---|---|---|
| | ASSETS | | LIABILITIES | |
| | 2006 | 2005 | 2006 | 2005 |
| Property, plant and equipment | - | - | 621 | 815 |
| Receivables | 69 | 107 | - | - |
| Inventories | 311 | 298 | - | - |
| Employee benefits | 893 | 1,082 | - | - |
| Payables | 65 | 114 | - | - |
| Other items | 56 | - | - | 73 |
| Tax assets / liabilities | 1,394 | 1,601 | 621 | 888 |
| Set off of tax | (621) | (888) | (621) | (888) |
| Net tax assets / liabilities | 773 | 713 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 14. DEFERRED TAX ASSETS AND LIABILITIES (continued)

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Gross value of tax losses | 21,500 | 4,543 | - | - |

The tax losses do not expire under current tax legislation, subject to the Group meeting any conditions relating to continuity of business and ownership. Deferred tax assets have not been recognised in respect of these losses because it is not probable that taxable profit will be available in the immediate future against which the losses can be applied.

## 15. PROPERTY, PLANT AND EQUIPMENT

| (NZ DOLLARS IN THOUSANDS) | GROUP | | | | |
|---|---|---|---|---|---|
| | LAND AND BUILDINGS | PLANT AND EQUIPMENT | MOTOR VEHICLES | UNDER CONSTRUCTION | TOTAL |
| **Cost** | | | | | |
| Balance at 1 July 2004 | 100,426 | 168,832 | 5,746 | - | 275,004 |
| Amalgamation of subsidiary | - | - | - | - | - |
| Acquisitions through business combinations | 77,658 | 68,133 | 3,716 | 1,107 | 150,614 |
| Other additions | 4,637 | 14,648 | 678 | 894 | 20,857 |
| Disposals | - | (2,033) | (676) | - | (2,709) |
| Effect of movements in foreign exchange | (4,380) | (3,544) | (196) | (60) | (8,180) |
| Balance at 30 June 2005 | 178,341 | 246,036 | 9,268 | 1,941 | 435,586 |
| Balance at 1 July 2005 | 178,341 | 246,036 | 9,268 | 1,941 | 435,586 |
| Acquisitions through business combinations | 113 | 1,188 | 90 | - | 1,391 |
| Other additions/transfers | 5,414 | 9,437 | 787 | 948 | 16,586 |
| Disposals | (15,304) | (32,520) | (3,939) | - | (51,763) |
| Effect of movements in foreign exchange | 24,311 | 34,043 | 1,089 | 481 | 59,924 |
| Balance at 30 June 2006 | 192,875 | 258,184 | 7,295 | 3,370 | 461,724 |
| **Depreciation and impairment losses** | | | | | |
| Balance at 1 July 2004 | 2,976 | 103,195 | 4,751 | - | 110,922 |
| Amalgamation of subsidiary | - | - | - | - | - |
| Depreciation charge for the year | 2,620 | 14,262 | 958 | - | 17,840 |
| Disposals | - | (1,492) | (655) | - | (2,147) |
| Effect of movements in foreign exchange | (151) | 41 | (22) | - | (132) |
| Balance at 30 June 2005 | 5,445 | 116,006 | 5,032 | - | 126,483 |
| Balance at 1 July 2005 | 5,445 | 116,006 | 5,032 | - | 126,483 |
| Depreciation charge for the year | 4,095 | 16,469 | 1,271 | - | 21,835 |
| Impairment charge | 277 | 900 | - | - | 1,177 |
| Disposals | (1,924) | (16,148) | (3,036) | - | (21,108) |
| Effect of movements in foreign exchange | 462 | 14,304 | 432 | - | 15,198 |
| Balance at 30 June 2006 | 8,355 | 131,531 | 3,699 | - | 143,585 |
| **Carrying amounts** | | | | | |
| At 1 July 2004 | 97,450 | 65,637 | 995 | - | 164,082 |
| At 30 June 2005 | 172,896 | 130,030 | 4,236 | 1,941 | 309,103 |
| At 1 July 2005 | 172,896 | 130,030 | 4,236 | 1,941 | 309,103 |
| At 30 June 2006 | 184,520 | 126,653 | 3,596 | 3,370 | 318,139 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

| (NZ DOLLARS IN THOUSANDS) | COMPANY | | | |
|---|---|---|---|---|
| | LAND AND BUILDINGS | PLANT AND EQUIPMENT | MOTOR VEHICLES | TOTAL |
| **Cost** | | | | |
| Balance at 1 July 2004 | 12,852 | 26,532 | 664 | 40,048 |
| Amalgamation of subsidiary | - | 4,621 | - | 4,621 |
| Acquisitions through business combinations | - | - | - | - |
| Other additions | 230 | 4,335 | 6 | 4,571 |
| Disposals | - | - | (282) | (282) |
| Effect of movements in foreign exchange | - | - | - | - |
| Balance at 30 June 2005 | 13,082 | 35,488 | 388 | 48,958 |
| Balance at 1 July 2005 | 13,082 | 35,488 | 388 | 48,958 |
| Acquisitions through business combinations | - | - | - | - |
| Other additions/transfers | 3,426 | (2,477) | - | 949 |
| Disposals | - | (3) | (306) | (309) |
| Effect of movements in foreign exchange | - | - | - | - |
| Balance at 30 June 2006 | 16,508 | 33,008 | 82 | 49,598 |
| **Depreciation and impairment losses** | | | | |
| Balance at 1 July 2004 | 193 | 20,910 | 542 | 21,645 |
| Amalgamation of subsidiary | - | 3,340 | - | 3,340 |
| Depreciation charge for the year | 203 | 1,479 | 83 | 1,765 |
| Disposals | - | (49) | (274) | (323) |
| Effect of movements in foreign exchange | - | - | - | - |
| Balance at 30 June 2005 | 396 | 25,680 | 351 | 26,427 |
| Balance at 1 July 2005 | 396 | 25,680 | 351 | 26,427 |
| Depreciation charge for the year | 360 | 1,621 | 26 | 2,007 |
| Impairment charge | - | - | - | - |
| Disposals | - | (3) | (299) | (302) |
| Effect of movements in foreign exchange | - | - | - | - |
| Balance at 30 June 2006 | 756 | 27,298 | 78 | 28,132 |
| **Carrying amounts** | | | | |
| At 1 July 2004 | 12,659 | 5,622 | 122 | 18,403 |
| At 30 June 2005 | 12,686 | 9,808 | 37 | 22,531 |
| At 1 July 2005 | 12,686 | 9,808 | 37 | 22,531 |
| At 30 June 2006 | 15,752 | 5,710 | 4 | 21,466 |

**Leased plant and machinery**

The Group leases plant and equipment under a number of finance lease agreements. At 30 June 2006, the net carrying amount of leased plant and machinery was NZD1,492,000 (2005: NZD1,592,000). The leased equipment secures the underlying lease obligations (see note 18).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 16. INTANGIBLE ASSETS

| (NZ DOLLARS IN THOUSANDS) | GROUP | | | | COMPANY | | |
|---|---|---|---|---|---|---|---|
| | GOODWILL | INTELLECTUAL PROPERTY | OTHER | TOTAL | GOODWILL | OTHER | TOTAL |
| **Cost** | | | | | | | |
| Balance at 1 July 2004 | 48,093 | - | 1,119 | 49,212 | 500 | 122 | 622 |
| Acquisitions through business combinations | 41,773 | 22,315 | 871 | 64,959 | 2,150 | - | 2,150 |
| Other acquisitions | - | - | 113 | 113 | - | 34 | 34 |
| Effect of movements in foreign exchange | (1,823) | (2,043) | 6 | (3,860) | - | - | - |
| Balance at 30 June 2005 | 88,043 | 20,272 | 2,109 | 110,424 | 2,650 | 156 | 2,806 |
| Balance at 1 July 2005 | 88,043 | 20,272 | 2,109 | 110,424 | 2,650 | 156 | 2,806 |
| Acquisitions through business combinations | 40,077 | - | - | 40,077 | - | - | - |
| Disposals | (14,291) | - | - | (14,291) | - | - | - |
| Other acquisitions | - | - | 547 | 547 | - | 64 | 64 |
| Effect of movements in foreign exchange | 7,722 | 4,502 | 248 | 12,471 | - | - | - |
| Balance at 30 June 2006 | 121,551 | 24,774 | 2,904 | 149,228 | 2,650 | 220 | 2,870 |
| **Amortisation and impairment losses** | | | | | | | |
| Balance at 1 July 2004 | 24,113 | - | - | 24,113 | 500 | - | 500 |
| Amortisation for the year | - | 1,055 | 280 | 1,335 | - | 17 | 17 |
| Effect of movements in foreign exchange | (1,349) | (41) | 2 | (1,388) | - | - | - |
| Balance at 30 June 2005 | 22,764 | 1,014 | 282 | 24,060 | 500 | 17 | 517 |
| Balance at 1 July 2005 | 22,764 | 1,014 | 282 | 24,060 | 500 | 17 | 517 |
| Amortisation for the year | - | 2,143 | 450 | 2,593 | - | 48 | 48 |
| Disposals | (8,124) | - | - | (8,124) | - | - | - |
| Impairment charge | 1,116 | - | - | 1,116 | - | - | - |
| Effect of movements in foreign exchange | 1,642 | 559 | 38 | 2,240 | - | - | - |
| Balance at 30 June 2006 | 17,398 | 3,716 | 770 | 21,885 | 500 | 65 | 565 |
| **Carrying amounts** | | | | | | | |
| At 1 July 2004 | 23,980 | - | 1,119 | 25,099 | - | 122 | 122 |
| At 30 June 2005 | 65,279 | 19,258 | 1,827 | 86,364 | 2,150 | 139 | 2,289 |
| At 1 July 2005 | 65,279 | 19,258 | 1,827 | 86,364 | 2,150 | 139 | 2,289 |
| At 30 June 2006 | 104,153 | 21,058 | 2,134 | 127,344 | 2,150 | 155 | 2,305 |

### Goodwill acquired in the year

The goodwill acquired during the year predominantly arose on the acquisition of the PML Group (see note 27). A proportion of this goodwill is likely to be attributed to other intangibles associated with the businesses trading relationships. This attribution will be performed once a full valuation of those relationships has been carried out. Consequently, the fair value for this acquisition is considered to be provisional at balance date.

### Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Administrative expenses | 450 | 280 | 48 | 17 |
| Other operating expenses | 3,259 | 1,055 | 0 | 0 |
| | 3,709 | 1,335 | 48 | 17 |

The impairment charge of NZD1,116,000 reflects the write-off of goodwill on acquisition of business assets in Brazil.

## 16. INTANGIBLE ASSETS (continued)

**Impairment tests for cash generating units containing goodwill**

The following units have significant carrying amounts of goodwill:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Resins | 59,418 | 55,077 | 2,150 | 2,150 |
| Specialties | 44,114 | 3,414 | - | - |
| Environmental services | - | 6,167 | - | - |
| | 103,532 | 64,658 | 2,150 | 2,150 |

The recoverable amount of each cash-generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results, budgets and forecasts. Cash flows for a further 10-20 year period are extrapolated using a growth rate appropriate to each business and location, in accordance with current business plans and forecasts. A pre-tax discount rate of 9.8 per cent has been used in discounting the projected cash flows, approximating the Group's overall weighted average cost of capital.

## 17. TRADE AND OTHER PAYABLES

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Trade payables and accrued expenses | 220,268 | 183,606 | 11,080 | 12,627 |
| Trade payables and accruals owed to subsidiaries | - | - | 1,290 | 873 |
| Fair value derivatives | 501 | - | 264 | - |
| | 220,769 | 183,606 | 12,634 | 13,500 |

## 18. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 22.

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Current liabilities** | | | | |
| Current portion of secured bank loans | - | 146,576 | - | - |
| Current portion of finance lease liabilities | 835 | 1,055 | 85 | 57 |
| | 835 | 147,631 | 85 | 57 |
| **Non-current liabilities** | | | | |
| Secured bank loans | 269,371 | 123,873 | - | - |
| Capital notes | 74,839 | 74,182 | 74,839 | 74,182 |
| Payable to subsidiaries | - | - | 1,030 | - |
| Finance lease liabilities | 343 | 648 | 58 | 65 |
| Other | 34 | 440 | 35 | 142 |
| | 344,587 | 199,143 | 75,962 | 74,389 |
| **Financing facilities** | | | | |
| Secured bank loans | 428,816 | 306,525 | - | - |
| **Facilities utilised at reporting date** | | | | |
| Secured bank loans | 269,371 | 270,449 | - | - |
| **Facilities not utilised at reporting date** | | | | |
| Secured bank loans | 159,445 | 36,076 | - | - |

**Financing arrangements**

**Capital notes**

The capital notes have an election date of 15 September 2007, at which point the Company can redeem for cash or roll-over the notes on revised terms. Unless the Company has given notice that it will redeem all capital notes, noteholders must elect to retain some or all of their notes on revised terms or convert some or all notes to shares. Despite a noteholders election, the Company can elect to redeem for cash some or all of the notes.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

### Revolving multi-currency cash advance facility

Bank loans are denominated in Pounds Sterling, Australian Dollars, Euro, US Dollars and Chinese Yuan (refer note 22). The bank loans amount in current liabilities comprises the portion of the Group's bank loan payable within one year which is NIL (2005 NZD146,576,000).

The bank loans are secured by a negative pledge whereby Nuplex Industries Limited and its subsidiary companies undertake to the lenders that they will not create or allow to continue any security interest over any part of its property other than in limited circumstances.

Loans are drawn on a revolving facility and are drawn for periods of one, two, three or six months under the facility and interest accrues at a rate fixed on the date of drawdown for that period.

### Finance lease liabilities

Finance lease liabilities of the Group and Company are payable as follows:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | | COMPANY | | |
|---|---|---|---|---|---|---|
| | MINIMUM LEASE PAYMENTS | PRINCIPAL | INTEREST | MINIMUM LEASE PAYMENTS | PRINCIPAL | INTEREST |
| 2006 | | | | | | |
| Less than one year | 835 | 759 | 76 | 85 | 76 | 9 |
| Between one and five years | 251 | 235 | 16 | 51 | 49 | 2 |
| More than five years | 91 | 87 | 4 | 7 | 7 | - |
| | 1,177 | 1,081 | 96 | 143 | 132 | 11 |
| 2005 | | | | | | |
| Less than one year | 1,055 | 963 | 92 | 57 | 52 | 5 |
| Between one and five years | 505 | 476 | 29 | 49 | 46 | 3 |
| More than five years | 143 | 139 | 4 | 16 | 16 | - |
| | 1,703 | 1,578 | 125 | 122 | 114 | 8 |

The Group leases equipment under finance leases expiring from one to five years.

## 19. EMPLOYEE PROVISIONS

### Current

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Bonus provisions | 3,067 | 3,473 | - | - |
| Liability for annual leave | 10,676 | 8,717 | 1,126 | 1,138 |
| Redundancy | 15,391 | - | - | - |
| Other | 3,007 | 4,544 | - | - |
| | 32,141 | 16,734 | 1,126 | 1,138 |

### Non-Current

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Present value of unfunded obligations | 2,985 | 6,621 | - | - |
| Present value of funded obligations | 16,143 | 89,668 | 2,440 | 2,736 |
| Fair value of plan assets | (2,274) | (46,815) | (2,274) | (2,085) |
| Present value of net obligations | 16,854 | 49,474 | 166 | 651 |
| Unrecognised actuarial (gains) and losses | (620) | - | - | - |
| Recognised liability for defined benefit obligations (see below) | 17,474 | 49,474 | 166 | 651 |
| Liability for long-service leave | 8,164 | 7,397 | 597 | 481 |
| Share-based payments | 723 | 235 | 132 | 46 |
| Other | 910 | 982 | 765 | 914 |
| Total employee benefits | 27,271 | 58,088 | 1,660 | 2,092 |

## 19. EMPLOYEE PROVISIONS (continued)

(a) Liability for defined benefit obligation

The Group makes contributions to three defined benefit plans that provide benefits for employees upon retirement. The plans include retirement schemes in The Netherlands and New Zealand and a United States medical scheme.

Plan assets consist of the following:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Debt instruments | - | 44,730 | - | - |
| Managed investment schemes | 2,274 | 2,085 | 2,274 | 2,085 |
| | 2,274 | 46,815 | 2,274 | 2,085 |

None of the plans hold any investments in Nuplex shares.

Movements in the net liability for defined benefit obligations:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Net liability for defined benefit obligations at 1 July | 96,289 | 2,548 | 2,736 | 2,548 |
| Benefits paid | (397) | (183) | (344) | (183) |
| Current service costs and interest | 7,508 | 3,741 | 48 | 371 |
| Acquisition/acquisition adjustment | (4,095) | 95,440 | - | - |
| Exchange adjustment | 6,898 | (5,257) | - | - |
| Effect of settlement/curtailment | (87,075) | - | - | - |
| Net liability for defined benefit obligations at 30 June | 19,128 | 96,289 | 2,440 | 2,736 |

Movements in plan assets:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Fair value of plan assets at 1 July | 46,815 | 1,987 | 2,085 | 1,987 |
| Acquisitions | - | 44,190 | - | - |
| Contributions paid into the plan | 2,706 | 2,859 | 201 | 205 |
| Benefits paid by the plan | (397) | (183) | (344) | (183) |
| Expected return on plan assets | 1,224 | 1,158 | 105 | 104 |
| Actuarial gain/(loss) | 203 | (507) | 227 | (28) |
| Exchange adjustment | 2,552 | (2,689) | - | - |
| Effect of settlement/curtailment | (50,829) | - | - | - |
| | 2,274 | 46,815 | 2,274 | 2,085 |

Expense recognised in the income statement:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Current service costs | (7,508) | (3,550) | (48) | (371) |
| Expected return on plan assets | 1,119 | 995 | - | - |
| Effect of settlement/curtailment | 32,334 | - | - | - |
| | 25,945 | (2,555) | (48) | (371) |

The expense is recognised in the following lines in the income statement:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Other income | 32,820 | - | 486 | - |
| Cost of sales | (2,568) | (939) | - | - |
| Distribution expenses | (233) | (85) | - | - |
| Marketing expenses | (2,117) | (950) | (534) | (371) |
| Administrative expenses | (1,957) | (581) | - | - |
| | 25,945 | (2,555) | (48) | (371) |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 19. EMPLOYEE PROVISIONS (continued)

Actuarial Assumptions:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Discount rate | 3.98 to 5.25% | 3.98 to 4.00% | 3.98% | 3.98% |
| Return on plan assets | 4.50 to 6.00% | 4.50 to 5.50% | 6.00% | 5.50% |
| Social security increases | 2.00% | 2.00% | | |
| Pension increases | 2.00 to 12.00% | 2.00 to 2.50% | | |
| Salary increases | 0 to 4.00% | 0 to 4.00% | | |

### Share-based payments

The Company has established a senior manager incentive scheme, effective from 1 July 2004. The scheme grants share rights to participating senior managers that will vest after three years if performance hurdles are met. The performance hurdle is the ASX 300 (excluding property trusts) index accumulation over the vesting period. So long as the Nuplex Total Shareholder Return (TSR) over the same vesting period is at least the median of the above index, then at least 50% of the performance share rights granted will vest. Vesting proportions increase as the Nuplex TSR moves higher against the ASX 300 index. Once the Nuplex TSR reaches the seventy fifth percentile of the ASX 300 index, all performance share rights granted will vest. The scheme requires the Company to buy one Nuplex share on-market for cash to settle each performance share right that has vested. On 1 July 2005, 196,035 performance share rights were granted (1 July 2004: 155,400 performance share rights were granted).

The fair value of the share rights granted is measured at grant date with reference to the likely proportion of shares vesting and the expected share price at vesting date. The fair value of each tranche is spread over the vesting period.

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Expense recognised in the income statement | | | | |
| Share rights granted in 2005 | 235 | 235 | 46 | 46 |
| Share rights granted in 2006 | 253 | - | 40 | - |
| | 488 | 235 | 86 | 46 |
| Carrying amount of performance share rights liability | 723 | 235 | 132 | 46 |

## 20. PROVISIONS

| (NZ DOLLARS IN THOUSANDS) | GROUP | | | | COMPANY | | |
|---|---|---|---|---|---|---|---|
| | RESTRUCTURING | SITE RESTORATION | OTHER | TOTAL | RESTRUCTURING | SITE RESTORATION | TOTAL |
| Balance at 1 July 2005 | 160 | 1,962 | 275 | 2,397 | - | - | - |
| Provisions made during the year | 200 | 8,060 | 3,679 | 11,939 | - | - | - |
| Provisions used during the year | (165) | (544) | (187) | (896) | - | - | - |
| Provisions reversed during the year | - | (115) | - | (115) | - | - | - |
| Exchange rate adjustment | 34 | 941 | - | 975 | - | - | - |
| Balance at 30 June 2006 | 229 | 10,304 | 3,767 | 14,300 | - | - | - |
| 2006 | | | | | | | |
| Current | 229 | 10,304 | 213 | 10,746 | - | - | - |
| Non-current | - | - | 3,554 | 3,554 | - | - | - |
| Total | 229 | 10,304 | 3,767 | 14,300 | - | - | - |
| 2005 | | | | | | | |
| Current | 160 | 1,962 | 275 | 2,397 | - | - | - |

### Site restoration

Provisions for site restoration are made where the Group has an obligation to remediate a site on which contamination has occurred. Provisions are based upon prior experience and surveyors reports. The amounts are expected to be utilised within the year.

### Other

Other provisions include provisions for legal claims and for deferred consideration on the PML Group acquisition as detailed in note 27.

## 21. CAPITAL AND RESERVES

### Share capital

| | GROUP & COMPANY | | | |
|---|---|---|---|---|
| Ordinary Shares | (IN THOUSANDS OF SHARES) | | (NZ DOLLARS IN THOUSANDS) | |
| | 2006 | 2005 | 2006 | 2005 |
| On issue at 1 July | 76,683 | 62,076 | 153,582 | 82,802 |
| Private placement | - | 11,550 | - | 55,967 |
| Shareholder purchase plan | - | 3,057 | - | 14,813 |
| Dividend reinvestment plan | 1,742 | - | 8,201 | - |
| On issue at 30 June | 78,425 | 76,683 | 161,783 | 153,582 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time, are entitled to one vote per share at meetings of the Company and participate equally on winding up of the Company.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

### Dividends

Dividends recognised in the current and previous years by the Company are as follows:

| (NZ DOLLARS IN THOUSANDS) | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | CENTS PER SHARE | TOTAL AMOUNT | IMPUTATION | DATE OF PAYMENT | CENTS PER SHARE | TOTAL AMOUNT | IMPUTATION | DATE OF PAYMENT |
| Interim current year ordinary | 14.0 | 10,875 | Fully Imputed | Apr-06 | 12.0 | 9,202 | Fully Imputed | Apr 05 |
| Final prior year ordinary | 14.5 | 11,119 | Fully Imputed | Oct-05 | 13.0 | 8,070 | Fully Imputed | Oct 04 |
| Supplementary dividends | | 502 | | | | 261 | | |
| Foreign investor tax credits | | (502) | | | | (261) | | |
| Total amount | | 21,994 | | | | 17,272 | | |

Dividends include tax credits at the maximum rate from the Company's Imputation Credit Account. Dividends paid from October 2004 included Australian franking credits at the maximum rate. Supplementary dividends are paid to foreign shareholders at the maximum rate.

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided.

| (NZ DOLLARS IN THOUSANDS) | CENTS PER SHARE | TOTAL AMOUNT | IMPUTATION | DATE OF PAYMENT |
|---|---|---|---|---|
| Final Dividend | 19.5 | 15,293 | 42% | 20 October 2006 |

### Imputation credits

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Balance at 1 July | 5,713 | 8,141 | 1,081 | 2,706 |
| Intercompany transfers | - | - | - | 1,572 |
| Imputation credits attached to dividends received | 48 | - | 4,745 | 1,422 |
| Prior year adjustment | (108) | - | (94) | - |
| Tax paid | 5,208 | 6,079 | 2,189 | 3,888 |
| Imputation credits attached to dividends paid | (10,266) | (8,507) | (10,266) | (8,507) |
| Balance at 30 June | 595 | 5,713 | (2,345) | 1,081 |

### Australian franking credits

| (AUD DOLLARS IN THOUSANDS) | GROUP | |
|---|---|---|
| Balance at 1 July | 23,368 | 20,695 |
| Franking credits attached to dividends received | 771 | 840 |
| Prior year adjustment | - | 2,838 |
| Tax paid | 7,343 | 8,514 |
| Franking credits attached to dividends paid | (11,393) | (9,519) |
| Balance at 30 June | 20,089 | 23,368 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 22. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

### Credit risk

The Group incurs credit risk from transactions with trade debtors and financial institutions in the normal course of its business. The Group has a credit policy which restricts the exposure to individual trade debtors. The Board of Directors reviews the exposure to trade debtors on a regular basis. The Group does not have any significant concentrations of credit risk. The amounts owed by trade debtors are unsecured.

The Group does not have any collateral security to support transactions with financial institutions. The counterparties used for banking and finance activities are financial institutions with high credit ratings.

Except as currently provided for, the Company does not expect the non-performance in respect of any outstanding obligations at balance date. The maximum exposure to credit risk is represented by the carrying value of each financial instrument in the statement of financial position.

### Interest rate risk

The Group generally accepts a policy of ensuring that its exposure to changes in interest rate risk is on a fixed basis. Interest rate swaps are used to convert the interest in floating rate borrowings to a fixed rate. The notional principal or contract amounts of swap instruments outstanding at balance date are as follows:

| Net interest rate swaps | 2006 | 2005 |
|---|---|---|
| Group | 123,956 | 108,883 |
| Company | – | 50,000 |

The Group classifies interest rate swaps as cash flow hedges and states them at fair value.

### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

GROUP 2006

| (NZ DOLLARS IN THOUSANDS) | EFFECTIVE INTEREST RATE | AMOUNT OF INTEREST RATE HEDGED | TOTAL | 6 MONTHS OR LESS | 6–12 MONTHS | 1–2 YEARS |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2.34 | - | 36,742 | 36,742 | - | - |
| Secured bank loans: | | | | | | |
| GBP loan | 5.15 | - | (19,811) | (19,811) | - | - |
| AUD loan | 6.06 | 49,007 | (99,240) | (99,240) | - | - |
| EUR loan | 3.28 | 63,198 | (92,690) | (92,690) | - | - |
| USD loan | 5.72 | 11,751 | (43,814) | (43,814) | - | - |
| CNY loan | 5.85 | - | (13,816) | (13,816) | - | - |
| Capital notes | 9.30 | - | (74,839) | - | - | (74,839) |
| Finance lease liabilities | | | (1,177) | - | (835) | (342) |
| Other | | | (35) | - | - | (35) |
| | | | (308,680) | (232,629) | (835) | (75,216) |

GROUP 2005

| (NZ DOLLARS IN THOUSANDS) | EFFECTIVE INTEREST RATE | AMOUNT OF INTEREST RATE HEDGED | TOTAL | 6 MONTHS OR LESS | 6–12 MONTHS | 1–2 YEARS | 2–5 YEARS |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 3.06 | | 58,771 | 58,771 | - | - | - |
| Secured bank loans: | | | | | | | |
| GBP loan | 5.18 | - | (14,906) | (14,906) | - | - | - |
| AUD loan | 6.00 | 43,549 | (108,871) | (108,871) | - | - | - |
| EUR loan | 2.92 | 60,333 | (103,431) | (103,431) | - | - | - |
| USD loan | 3.72 | 5,001 | (31,878) | (31,878) | - | - | - |
| CNY loan | 5.00 | - | (11,363) | - | (11,363) | - | - |
| Capital notes | 9.30 | - | (74,182) | - | - | - | (74,182) |
| Finance lease liabilities | | | (1,703) | - | (1,055) | (648) | - |
| Other | | | (440) | - | - | (440) | - |
| | | | (288,003) | (200,315) | (12,418) | (1,088) | (74,182) |

## 22. FINANCIAL INSTRUMENTS (continued)

COMPANY 2006

| (NZ DOLLARS IN THOUSANDS) | EFFECTIVE INTEREST RATE | AMOUNT HEDGED | TOTAL | 6 MONTHS OR LESS | 6–12 MONTHS | 1–2 YEARS | 2-5 YEARS |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 3.30 | - | 6,162 | 6,162 | - | - | - |
| Capital notes | 9.30 | - | (74,839) | - | - | (74,839) | - |
| Finance lease liabilities | | | (143) | - | - | (143) | - |
| Other | | | (35) | - | - | (35) | - |
| | | | (68,855) | 6,162 | - | (75,017) | - |

COMPANY 2005

| (NZ DOLLARS IN THOUSANDS) | EFFECTIVE INTEREST RATE | AMOUNT HEDGED | TOTAL | 6 MONTHS OR LESS | 6–12 MONTHS | 1–2 YEARS | 2–5 YEARS |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 1.40 | - | 10,858 | 10,858 | - | - | - |
| Capital notes | 9.30 | - | (74,182) | - | - | - | (74,182) |
| Finance lease liabilities | | | (122) | - | - | (122) | - |
| Other | | | (142) | - | - | (142) | - |
| | | | (63,588) | 10,858 | - | (264) | (74,182) |

### Currency risk

The Group has exposure to foreign exchange risk as a result of transactions in foreign currencies that arise from normal trading activities. The Group uses forward exchange instruments to manage elements of these exposures.

### Forecasted transactions

The Group does not hedge account its forward exchange contracts. These contracts are fair valued and any profit or loss on valuation is shown in the income statement. The net fair value of these forward exchange contracts at 30 June was (NZD7,000) (2005: NZD235,000), comprising assets of NZD205,000 (2005: NZD235,000), and liabilities of NZD212,000 (2005: NIL) that were recognised in fair value derivatives.

### Hedge of net investments in foreign subsidiaries

The Group has designated two loans as hedges of the Group's net investments in foreign subsidiaries as detailed below:

| Subsidiary | LOAN CURRENCY | LOAN PRINCIPAL (CCY) | CARRYING AMOUNT (NZD) | EXCHANGE GAIN RECOGNISED IN EQUITY |
|---|---|---|---|---|
| Nuplex Finance Holdings Limited for Nuplex Industries BV | EUR | 8,500,000 | 17,906,046 | 3,253,400 |
| Nuplex Industries Australia Pty Ltd for Nuplex Resins (Foshan) Co Ltd and Cong Ty Nuplex Resins (Vietnam) | USD | 10,000,000 | 16,786,973 | 2,499,218 |

### Fair values

The fair values, together with the carrying amounts shown in the balance sheet, are as follows:

GROUP

| (NZ DOLLARS IN THOUSANDS) | NOTES | CARRYING AMOUNT 2006 | FAIR VALUE 2006 | CARRYING AMOUNT 2005 | FAIR VALUE 2005 |
|---|---|---|---|---|---|
| Trade and other receivables | 12 | 296,961 | 296,961 | 235,062 | 235,062 |
| Cash and cash equivalents | | 36,742 | 36,742 | 58,771 | 58,771 |
| Interest rate swaps: | | | | | |
| Assets | | 254 | 254 | - | 48 |
| Liabilities | | (289) | (289) | - | (1,207) |
| Forward exchange contracts: | | | | | |
| Assets | | 205 | 205 | - | 235 |
| Liabilities | | (212) | (212) | - | - |
| Secured bank loans | 18 | (269,371) | (269,371) | (270,449) | (270,449) |
| Capital notes | 18 | (74,839) | (77,079) | (74,182) | (79,023) |
| Finance lease liabilities | 18 | (1,177) | (1,111) | (1,703) | (1,628) |
| Loan to associate | | - | - | 290 | 290 |
| Trade and other payables | 17 | (220,769) | (220,769) | (183,606) | (183,606) |
| | | (232,495) | (234,669) | (235,817) | (241,507) |
| Unrecognised (losses) / gains | | | (2,174) | | (5,690) |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 22. FINANCIAL INSTRUMENTS (continued)

COMPANY

| (NZ DOLLARS IN THOUSANDS) | NOTES | CARRYING AMOUNT 2006 | FAIR VALUE 2006 | CARRYING AMOUNT 2005 | FAIR VALUE 2005 |
|---|---|---|---|---|---|
| Trade and other receivables | 12 | 22,457 | 22,457 | 23,029 | 23,029 |
| Cash and cash equivalents | | 6,162 | 6,162 | 10,858 | 10,858 |
| Interest rate swaps: | | | | | |
| Assets | | - | - | - | - |
| Liabilities | | (264) | (264) | - | (363) |
| Forward exchange contracts: | | | | | |
| Assets | | 205 | 205 | - | 197 |
| Liabilities | | - | - | - | - |
| Capital notes | 18 | (74,839) | (77,079) | (74,182) | (79,023) |
| Finance lease liabilities | 18 | (143) | (133) | (122) | (113) |
| Loan to associate | 18 | - | - | 290 | 290 |
| Trade and other payables | 17 | 12,634 | 12,634 | 13,500 | 13,500 |
| | | (33,788) | (36,018) | (26,627) | (31,625) |
| Unrecognised (losses) / gains | | | (2,230) | | (4,998) |

### ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

#### Derivatives

For interest forward exchange contracts and interest rate swaps, counterparty valuations are used.

#### Capital notes

Fair value is calculated based on discounted expected future principal and interest cash flows.

#### Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

#### Interest rates used for determining fair value

The entity uses the government yield curve as of 30 June 2006 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

| | 2006 | 2005 |
|---|---|---|
| Capital notes | 7.4% | 7.0% |
| Leases | 4%–13% | 4%–13% |

## 23. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Less than one year | 6,638 | 6,742 | 2,026 | 2,014 |
| Between one and five years | 9,961 | 10,514 | 3,826 | 3,679 |
| More than five years | 8,438 | 9,730 | 8,012 | 8,759 |
| | 25,037 | 26,986 | 13,864 | 14,452 |

The Group leases a number of warehouse and factory facilities under operating leases. The leases typically run for a period of five years, with an option to renew the lease after that date. None of the leases include contingent rentals.

During the year ended 30 June 2006, NZD11,284,130 was recognised as an expense in the income statement in respect of operating leases (2005: NZD10,055,290).

## 24. CAPITAL AND OTHER COMMITMENTS

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Plant and equipment contracted but not provided for and payable: | | | | |
| Within one year | 2,002 | 4,330 | 81 | 105 |
| | 2,002 | 4,330 | 81 | 105 |

## 25. CONTINGENT LIABILITIES

The Company and all the material wholly owned subsidiaries have entered into a negative pledge deed with the Group's lenders whereby all Group companies that are party to the deed have guaranteed the repayment of all liabilities in the event that any of these companies are wound up.

The Company has issued a guarantee to Citibank Thailand to enable associate company Synthese Thailand Co Limited to borrow up to USD3.7million. Nuplex has received an undertaking from JV partner Thai Urethane Plastic Co Limited to indemnify it from and against 48% of all losses, costs, damages, expenses, claims and demands which may be incurred or sustained by reason or on account of having given the guarantee.

The Company has not adopted amendments to NZIAS 39 and NZIFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 July 2006. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company does not expect the amendments to the standards to have any impact on the financial statements for the period commencing 1 July 2006.

## 26. INVESTMENTS

The subsidiary and associate companies comprise:

| | PRINCIPAL ACTIVITY | DIRECTORS ** | COUNTRY OF INCORPORATION OTHER THAN NZ | % HELD 2006 | % HELD 2005 |
|---|---|---|---|---|---|
| Asia Pacific Specialty Chemicals Limited | Manufacturer and supplier of specialty products, additives and ingredients | 1, 2 | Australia | 100% | 100% |
| Cong Ty Nuplex Resins (Vietnam) | Manufacture and distribution of synthetic resins | 1, 2, 3 | Vietnam | 100% | 100% |
| Nuplex Finance Holdings Limited | Investment and group finance company | 1, 2 | | 100% | 100% |
| Nuplex Industries (Aust) Pty Limited | Manufacture, import and distribution of synthetic resins and emulsions, metal driers, paper-making, chemicals and food ingredients | 1, 2 | Australia | 100% | 100% |
| Nuplex Industries BV | Non-operating holding company | 1, 2 | Netherlands | 100% | 100% |
| Nuplex Industries UK Limited | Non-operating holding company | 1, 2 | UK | 100% | 100% |
| Nuplex Medismart Limited | Collection and treatment of medical and quarantine wastes | 1, 2 | | Nil | 100% |
| Nuplex Operations (Aust) Pty Limited | Non-operating holding company | 1, 2 | Australia | 100% | 100% |
| Nuplex Resins (Foshan) Co Limited | Manufacture and distribution of synthetic resins | 1, 2 | China | 100% | 100% |
| Nuplex Resins BV | Manufacture and distribution of synthetic resins | 1, 2 | Netherlands | 100% | 100% |
| Nuplex Resins Limited | Manufacture and distribution of synthetic resins | 1, 2 | UK | 100% | 100% |
| Nuplex Resins LLC | Manufacture and distribution of synthetic resins | 1, 2 | US | 100% | 100% |
| Nuplex Resins (Suzhou) Co Limited* | Manufacture and distribution of synthetic resins | 1, 3, 4 | China | 100% | 100% |
| Nuplex Resins (Thailand) Limited | Non-operating holding company | 1, 2 | Thailand | 100% | 100% |
| Nuplex Sino Chemicals BV | Non-operating holding company | 1, 2 | Netherlands | 100% | 100% |
| Nuplex Special Waste Pty Limited | Collection and treatment of liquid, hazardous and other special wastes | 1, 2 | Australia | Nil | 100% |
| Plaster Systems Limited | Manufacture of pre-mixed lightweight and strengthening plasters | 1, 2 | | 100% | 100% |
| PT Nuplex Raung Resins | Manufacture and distribution of synthetic resins | 3, 4 | Indonesia | 80% | 80% |
| Silvertown Land Holdings Limited | Property holding company | 1, 2 | UK | 100% | 100% |
| Synthese (Malaysia) Sdn bhd | Manufacture and distribution of synthetic resins | 3, 4 | Malaysia | 62% | 62% |
| United Environmental Limited | Collection and treatment of liquid, hazardous and other special wastes | 1, 2 | | Nil | 100% |
| Nuplex Chemical Holdings Pty Limited (Liquidated) | Non-operating | 1, 2 | Australia | Nil | 100% |
| Chemat Pty Limited | Non-operating | 1, 2 | Australia | 100% | 100% |
| H.B. Sales (Qld) Pty Limited (in Liquidation) | Non-operating | 1, 2 | Australia | 100% | 100% |
| Medihold International 3 Pty Limited (in Liquidation) | Non-operating | 1, 2 | Australia | 100% | 100% |
| Medismart Technologies Pty Limited (in Liquidation) | Non-operating | 1, 2 | Australia | 100% | 100% |
| Nuplex Holding Pty Limited (Liquidated) | Non-operating | 1, 2 | Australia | Nil | 100% |
| Nuplex Industries (Hong Kong) Limited | Non-operating | 1, 2 | Hong Kong | 100% | 100% |
| Medical Waste (Wellington) Limited | Collection and treatment of medical and quarantine wastes | 1, 2 | | Nil | 50% |
| Daniels Sharpsmart (NZ) Limited | Distribution of sharps containers | 1, 2 | | Nil | 50% |
| Quaker Chemical (Australia) Pty Limited | Distributor of specialty products | 1, 5 | Australia | 49% | 49% |
| Octel Valvemaster Limited* | Distributor of specialty products | 1, 2 | UK | 50% | 50% |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 26. INVESTMENTS (continued)

| | PRINCIPAL ACTIVITY | DIRECTORS ** | COUNTRY OF INCORPORATION OTHER THAN NZ | % HELD 2006 | % HELD 2005 |
|---|---|---|---|---|---|
| Synthese (Thailand) Co Limited* | Manufacture and distribution of synthetic resins | 3, 4 | Thailand | 45% | 45% |
| PML Holdings Limited | Non-operating holding company | 1, 2 | | 100% | Nil |
| Polychem Marketing Limited | Import and distribution of specialty chemicals | 1, 2 | | 100% | Nil |
| Aushold Pty Limited | Non-operating holding company | 1, 2 | Australia | 100% | Nil |
| Multichem Pty Limited | Import and distribution of specialty chemicals | 1, 2 | Australia | 100% | Nil |
| Nuplex Producao de Resinas Ltda | Manufacture and distribution of synthetic resins | 1, 2, 5 | Brazil | 100% | Nil |

All the companies have a balance date of 30 June, except companies marked * which are 31 December

**Nuplex executives acting as directors of the above companies are as follows:

1 John Hirst. 2 Graeme Storey. 3 Rob Harmsen. 4 Ronny Chew. 5 Tony Cooke.

## 27. ACQUISITION OF SUBSIDIARIES AND BUSINESS ASSETS

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| The assets and liabilities acquired are as follows: | | | | |
| Fixed assets | 1,391 | 150,614 | - | - |
| Investments | - | 100 | 47,687 | - |
| Intellectual property | - | 22,315 | - | - |
| Non-current receivables | - | 42 | - | - |
| Future income tax benefit | (1,190) | 16,682 | - | - |
| Inventories | 11,161 | 62,207 | - | 500 |
| Current receivables | 16,613 | 95,077 | - | - |
| Minority interests | - | (6,999) | - | - |
| Non-current payables | - | - | - | - |
| Non-current provisions and employee benefits | - | (53,092) | - | - |
| Deferred tax liability | - | (24,691) | - | - |
| Current payables | (19,812) | (75,450) | - | - |
| Borrowings | - | (11,120) | - | - |
| Current provisions | 3,180 | (577) | - | - |
| Provision for tax | (900) | (557) | - | - |
| Net identifiable assets and liabilities | 10,443 | 174,551 | 47,687 | 500 |
| Acquisition costs | 678 | 7,065 | 74 | - |
| Cash consideration paid in cash, net of cash acquired | 46,246 | 208,823 | 47,613 | 2,650 |
| Deferred consideration | 3,596 | - | - | - |
| Cash deposit paid in prior period | - | 436 | - | - |
| Goodwill arising on acquisition | 40,077 | 41,773 | - | 2,150 |

### Acquisitions in 2006

In accordance with the deferred closing provisions of the agreement to acquire the Coating Resins Group from Akzo Nobel, the Brazilian operations of the above Coating Resins Group were acquired for cash of NZD6.3m in November 2005. The Brazilian operations have made a loss of NZD3,517,000 since acquisition.

Adjustments to the opening employee liabilities acquired in the US operations of the Akzo Nobel Coating Resins Group have been recognised in the current year. Employee provisions were reduced by NZD3,180,000 and the associated deferred tax asset reduced by NZD1,271,000.

On 30 November 2005, the Group acquired 100% of the voting equity of PML Holdings Limited, a group of chemical raw material suppliers operating in Australia and New Zealand. The group operates in New Zealand as Polychem Marketing and in Australia as Multichem. Nuplex paid NZD44m for the shares with an additional amount, maximum NZD4m, payable upon achieving earnings and growth targets over the next two and a half years. The additional amount has been provided in full due to the likelihood of achieving targets. Since acquisition the PML Group has made a profit after tax of NZD2,906,000

### Acquisitions in 2005

On 31 December 2004, the Group acquired for cash the Coatings Resins business from Akzo Nobel. This included buying a mixture of shares and business assets and liabilities of operations located in The Netherlands, Spain, United Kingdom, USA, China, Malaysia, Indonesia and Thailand.

In July 2004, the Group settled for cash the acquisition of the resin manufacturing assets of Veeya Chemical Company in China. In February 2005, the Company acquired for cash the resin manufacturing assets and business of Mercator Technologies Ltd in New Zealand. In June 2005, the Group acquired for cash the assets and agency for Uniqema in Australia.

## 28. RELATED PARTIES

The Company has a related party relationship with its subsidiaries and associates (see note 26) and with its directors and executive officers.

### Transactions with subsidiaries and associates

Transactions with subsidiaries and associates are carried out on an arms length basis. The following transactions are carried out between the Company and its subsidiaries and associates:

| | 2006 | 2005 |
|---|---|---|
| Sale of goods and services | 3,154 | 4,224 |
| Purchases of goods and services | (5,344) | (4,865) |

Dividends received from subsidiaries - refer note 3
Interest received - refer note 7
Loans to subsidiaries and associates - refer note 12
Current receivables - refer note 12
Current payables - refer note 17

### Transactions with key management personnel

Retirement allowances for directors were crystallised and fully provided for in the prior year at the average of total remuneration for the three years up to 30 June 2004. Retirement allowances will be paid to the current non-executive directors on retirement provided they have served at least six years as a director and on a pro-rata basis for service less than six years.

Executive officers participate in the Group's performance share rights (PSR's) scheme (see note 18).

None of the key management personnel were members of the defined benefit retirement schemes referred to in note 19.

The key management personnel compensation was as follows:

| (NZ DOLLARS IN THOUSANDS) | 2006 | 2005 |
|---|---|---|
| Directors' remuneration | 532 | 523 |
| Executive officers' remuneration: | | |
| Total employment costs excluding bonuses | 1,939 | 1,304 |
| Bonuses | 169 | 315 |
| PSR's accrued | 273 | 136 |
| | 2,381 | 1,755 |

## 29. RECONCILIATION OF THE NET SURPLUS WITH THE NET CASH FLOWS FROM OPERATING ACTIVITIES:

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Profit for the period | 63,836 | 33,728 | 46,183 | 30,017 |
| Non-cash items: | | | | |
| Depreciation | 23,012 | 17,840 | 2,007 | 1,765 |
| Tax | 26,253 | 16,389 | 2,430 | 2,104 |
| Amortisation | 2,593 | 1,335 | 48 | 17 |
| Impairment | 1,116 | - | - | - |
| Non-current provisions | (4,023) | (812) | 54 | (49) |
| Doubtful debts provisions | 596 | 477 | (116) | (87) |
| Restructuring provisions | 22,981 | - | - | - |
| Change in valuation of employee provisions | (32,283) | - | - | - |
| Stock obsolescence provisions | - | 412 | - | - |
| Intercompany dividends and interest | - | - | (10,168) | (14,430) |
| Equity earnings of associate | (1,056) | (1,805) | - | - |
| Amortisation of capital notes expenses | 550 | 658 | 657 | 658 |
| | 39,739 | 34,494 | (5,088) | (10,022) |
| Classified as investing/financing: | | | | |
| Loss/(profit) on sale of fixed assets | (437) | (18) | (85) | (74) |
| Gain on sale of business | (24,722) | - | (5,637) | - |
| Gain on refinancing acquisition loans | (5,224) | - | - | - |
| | (30,383) | (18) | (5,722) | (74) |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 29. RECONCILIATION OF THE NET SURPLUS WITH THE NET CASH FLOWS FROM OPERATING ACTIVITIES (continued)

| (NZ DOLLARS IN THOUSANDS) | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| (Increase)/Decrease in working capital: | | | | |
| Receivables | 8,879 | (16,536) | 688 | (1,605) |
| Inventories | 2,046 | (15,167) | (467) | (2,382) |
| Creditors and current provisions | (15,630) | 39,179 | (1,180) | 816 |
| | (4,705) | 7,476 | (959) | (3,171) |
| Income tax paid | (22,119) | (17,044) | (2,287) | (3,738) |
| Dividend received from associate | 2,112 | 2,120 | - | - |
| Cash Flow from Operating Activities | 48,480 | 60,756 | 32,127 | 13,012 |

## 30. IMPACT OF TRANSITION TO NZIFRS

### NZIFRS 1 elections

The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the Group's opening NZIFRS balance sheet at 1 July 2004. As permitted, the Group has elected to transfer the balance of the foreign currency translation reserve to retained earnings at the date of transition to NZIFRS. The Group has elected to set the fair value as the deemed cost of property, plant and equipment. The Group will no longer revalue property to fair value. Adoption of IFRS has not impacted on cash flows.

Reconciliation of profit for 2005

| (NZ DOLLARS IN THOUSANDS) | | GROUP | | | COMPANY | | |
|---|---|---|---|---|---|---|---|
| | NOTES | PREVIOUS NZ GAAP | EFFECT OF TRANSITION TO NZIFRS | NZIFRS | PREVIOUS NZ GAAP | EFFECT OF TRANSITION TO NZIFRS | NZIFRS |
| | | 12 MONTHS ENDED 30 JUNE 2005 | | | 12 MONTHS ENDED 30 JUNE 2005 | | |
| Sales revenue | | 928,547 | - | 928,547 | 132,844 | - | 132,844 |
| Cost of sales | | (713,874) | - | (713,874) | (97,031) | - | (97,031) |
| Gross profit | | 214,673 | | 214,673 | 35,813 | - | 35,813 |
| Other operating income | | 1,248 | - | 1,248 | 28,477 | - | 28,477 |
| Distribution expenses | | (52,914) | - | (52,914) | (7,200) | - | (7,200) |
| Marketing expenses | | (59,318) | - | (59,318) | (10,088) | - | (10,088) |
| Administrative expenses | e | (40,050) | (241) | (40,291) | (7,172) | (15) | (7,187) |
| Other operating expenses | d | (5,933) | 3,718 | (2,215) | (1,180) | 25 | (1,155) |
| Operating profit | | 57,706 | 3,477 | 61,183 | 38,650 | 10 | 38,660 |
| Financial income | | 4,992 | - | 4,992 | 1,957 | - | 1,957 |
| Financial expenses | | (17,863) | - | (17,863) | (8,496) | - | (8,496) |
| Net financing costs | | (12,871) | - | (12,871) | (6,539) | - | (6,539) |
| Equity accounted earnings | | 1,805 | - | 1,805 | - | - | - |
| Profit before tax | | 46,640 | 3,477 | 50,117 | 32,111 | 10 | 32,121 |
| Income tax expense | c | (16,790) | 401 | (16,389) | (2,109) | 5 | (2,104) |
| Profit for the period | | 29,850 | 3,878 | 33,728 | 30,002 | 15 | 30,017 |
| Attributable to: | | | | | | | |
| Shareholders | | 29,215 | 3,878 | 33,093 | 30,002 | 15 | 30,017 |
| Minority interests | | 635 | - | 635 | - | - | - |
| | | 29,850 | 3,878 | 33,728 | 30,002 | 15 | 30,017 |

## 30. IMPACT OF TRANSITION TO NZIFRS (continued)

### Reconciliation of Equity

| (NZ DOLLARS IN THOUSANDS) | | GROUP | | | | | |
|---|---|---|---|---|---|---|---|
| | NOTES | PREVIOUS NZ GAAP | EFFECT OF TRANSITION TO NZIFRS | NZIFRS | PREVIOUS NZ GAAP | EFFECT OF TRANSITION TO NZIFRS | NZIFRS |
| | | | 1 JULY 2004 | | | 30 JUNE 2005 | |
| **Assets** | | | | | | | |
| Property, plant and equipment | | 164,694 | (612) | 164,082 | 309,246 | (143) | 309,103 |
| Intangibles | d | 23,980 | 1,119 | 25,099 | 55,291 | 31,073 | 86,364 |
| Investments | | 4,118 | - | 4,118 | 3,899 | - | 3,899 |
| Receivables | | 518 | - | 518 | 290 | - | 290 |
| Deferred tax assets | c | 7,303 | (4,902) | 2,401 | 21,781 | (16,996) | 4,785 |
| Non-current assets | | 200,613 | (4,395) | 196,218 | 390,507 | 13,934 | 404,441 |
| Inventories | | 97,267 | - | 97,267 | 178,024 | - | 178,024 |
| Receivables | | 121,242 | - | 121,242 | 235,062 | - | 235,062 |
| Income tax receivable | | - | - | - | 842 | - | 842 |
| Cash | | 27,098 | - | 27,098 | 58,771 | - | 58,771 |
| Current assets | | 245,607 | - | 245,607 | 472,699 | - | 472,699 |
| Total assets | | 446,220 | (4,395) | 441,825 | 863,206 | 13,934 | 877,140 |
| **Liabilities** | | | | | | | |
| Borrowings | | 186,934 | 560 | 187,494 | 198,495 | 648 | 199,143 |
| Employee benefits | e | 7,859 | 104 | 7,963 | 57,722 | 366 | 58,088 |
| Deferred tax provision | c | - | - | - | - | 11,781 | 11,781 |
| Non-current liabilities | | 194,793 | 664 | 195,457 | 256,217 | 12,795 | 269,012 |
| Borrowings | | - | - | - | 146,576 | 1,055 | 147,631 |
| Payables | | 75,321 | 6,461 | 81,782 | 200,340 | - | 200,340 |
| Provisions | | 8,470 | (6,461) | 2,009 | 2,397 | - | 2,397 |
| Current tax payable | | 1,601 | - | 1,601 | 2,745 | - | 2,745 |
| Current liabilities | | 85,392 | - | 85,392 | 352,058 | 1,055 | 353,113 |
| Total liabilities | | 280,185 | 664 | 280,849 | 608,275 | 13,850 | 622,125 |
| TOTAL NET ASSETS | | 166,035 | (5,059) | 160,976 | 254,931 | 84 | 255,015 |
| **Equity** | | | | | | | |
| Contributed equity | | 82,802 | - | 82,802 | 153,582 | - | 153,582 |
| Asset revaluation reserve | a | 31,096 | (31,096) | - | 31,096 | (31,096) | - |
| Translation reserve | b | (14,927) | 14,927 | - | (15,953) | 16,395 | 442 |
| Retained earnings | a, b, c, d, e | 67,064 | 11,110 | 78,174 | 79,007 | 14,988 | 93,995 |
| Minority interests | | - | - | - | 7,199 | (203) | 6,996 |
| TOTAL EQUITY | | 166,035 | (5,059) | 160,976 | 254,931 | 84 | 255,015 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

## 30. IMPACT OF TRANSITION TO NZIFRS (continued)

Reconciliation of Equity

| (NZ DOLLARS IN THOUSANDS) | | COMPANY | | | | | |
|---|---|---|---|---|---|---|---|
| | NOTES | PREVIOUS NZ GAAP | EFFECT OF TRANSITION TO NZIFRS | NZIFRS | PREVIOUS NZ GAAP | EFFECT OF TRANSITION TO NZIFRS | NZIFRS |
| | | | 1 JULY 2004 | | | 30 JUNE 2005 | |
| **Assets** | | | | | | | |
| Property, plant and equipment | | 18,490 | (87) | 18,403 | 23,162 | (1,252) | 22,531 |
| Intangibles | d | - | 122 | 122 | 1,504 | 1,406 | 2,289 |
| Investments | | 150,547 | - | 150,547 | 142,938 | - | 142,938 |
| Receivables | | 6,327 | - | 6,327 | 84,333 | - | 84,333 |
| Deferred tax assets | c | 82 | (216) | (134) | 923 | (210) | 713 |
| Non-current assets | | 175,446 | (181) | 175,265 | 252,860 | (56) | 252,804 |
| Inventories | | 14,589 | - | 14,589 | 22,202 | - | 22,202 |
| Receivables | | 16,213 | - | 16,213 | 23,029 | - | 23,029 |
| Income tax receivable | | - | - | - | 1,442 | - | 1,442 |
| Cash | | 12,945 | - | 12,945 | 10,858 | - | 10,858 |
| Current assets | | 43,747 | - | 43,747 | 57,531 | - | 57,531 |
| Total assets | | 219,193 | (181) | 219,012 | 310,391 | (56) | 310,335 |
| **Liabilities** | | | | | | | |
| Borrowings | | 73,524 | - | 73,524 | 74,324 | 65 | 74,389 |
| Employee benefits | | 1,214 | 79 | 1,293 | 1,986 | 106 | 2,092 |
| Non-current liabilities | | 74,738 | 79 | 74,817 | 76,310 | 171 | 76,481 |
| Borrowings | | - | 39 | 39 | - | 57 | 57 |
| Payables | | 9,033 | - | 9,033 | 13,500 | - | 13,500 |
| Employee benefits | | 807 | - | 807 | 1,138 | - | 1,138 |
| Income tax payable | | 146 | - | 146 | - | - | - |
| Current liabilities | | 9,986 | 39 | 10,025 | 14,638 | 57 | 14,695 |
| Total liabilities | | 84,724 | 118 | 84,842 | 90,948 | 228 | 91,176 |
| TOTAL NET ASSETS | | 134,469 | (299) | 134,170 | 219,443 | (284) | 219,159 |
| **Equity** | | | | | | | |
| Contributed equity | | 82,802 | - | 82,802 | 153,582 | - | 153,582 |
| Retained earnings | c, d | 51,667 | (299) | 51,368 | 65,861 | (284) | 65,577 |
| TOTAL EQUITY | | 134,469 | (299) | 134,170 | 219,443 | (284) | 219,159 |

The material adjustments that have been made are explained below:

(a) Asset revaluation reserve

Nuplex has elected to use a previous GAAP revaluation of land and buildings before the date of transition to NZIFRS as deemed cost at the date revaluation, and that this deemed cost represents fair value of those assets. In future, land and buildings will be carried at cost or deemed cost less future impairments and depreciation.

The effect is to reduce the value of the asset revaluation reserve at 1 July 2004 from NZD31,096,000 to NIL and to increase the value of retained earnings by the same amount.

(b) Foreign currency translation reserve

Nuplex has elected to deem all cumulative translation differences at zero upon first-time adoption of NZIFRS.

The effect is to increase the value of the foreign currency translation reserve at 1 July 2004 from (NZD14,927,000) to NIL and to decrease the value of retained earnings by the same amount.

(c) Deferred tax

Under NZIFRS, deferred tax is recognised on all temporary differences between accounting and tax values for each asset and liability (known as balance sheet approach) rather than accounting for the effect of timing differences between accounting and tax profits. An adjustment has been booked to reflect deferred tax on those items that were not subject to deferred tax under the liability method under NZ GAAP. For Nuplex this adjustment primarily reflects the recognition of the deferred tax liability on the revalued portion of buildings and intellectual property. The adjustment for 2005 is impacted by depreciation for accounting charged on the revalued portion of those revalued buildings and amortisation for accounting charged on intellectual property, and also takes account of adoption of the balance sheet approach for deferred tax to present the full deferred tax balance arising on the acquisition of the Coatings resins business with a corresponding adjustment to goodwill.

The effect is to decrease the deferred tax asset reported by NZD4,902,000 as at 1 July 2004 and by NZD16,996,000 as at 30 June 2005, and increase the deferred tax liability reported at 30 June 2005 by NZD11,781,000, with a decrease in retained earnings of NZD4,902,000 as at 1 July 2004 and NZD4,086,000 as at 30 June 2005. The adjustment also results in an increase in the goodwill acquired in relation to the Coatings Resins business of NZD24,691,000 at 30 June 2005.

The impact on income tax expense due to reductions in the value of underlying assets upon which deferred tax has been recognised is a decrease of NZD401,000 for the year ended 30 June 2005.

(d) Goodwill

Under NZ GAAP, Nuplex amortised goodwill on a straight-line basis over the period, not exceeding 15 years, during which benefits were expected to be received. Under NZIFRS, goodwill is no longer amortised, rather it is the subject of an annual impairment test. As Nuplex elected not to reopen acquisitions prior to 30 June 2004, the reversal of the annual benefit arising from a discount on an earlier acquisition (NZD158,000) is netted in this adjustment.

The impact is to increase the value of intangibles and retained earnings and decrease other operating expenses by NZD3,718,000 at 30 June 2005.

(e) Share-based payments

Under NZ GAAP, Nuplex had not brought to account a liability in respect of its performance share rights scheme. Under NZIFRS, the fair value of this scheme is assessed at issuance of each tranche of shares and the fair value spread over the period between issuance and vesting of each tranche issued.

The impact of the adjustment in the Group was to increase the non-current employee benefits provision by NZD236,000 and increase administrative expenses by the same amount. The impact of the adjustment in the Company was NZD46,000.

Adoption of IAS39

The Group has adopted IAS39 as at 1 July 2005. Under NZ GAAP, the Group did not recognise derivatives. In accordance with IAS39, derivatives have been recognised at fair value and accounted for as set out in the accounting policies note. Prior to 1 July 2005, the fair value of derivative financial instruments were not recognised as assets or liabilities in the financial statements unless the underlying transaction that the derivative instrument related to was in the balance sheet.

The impact of adoption was to decrease opening equity by NZD777,000 in the Group accounts and NZD177,000 in the Company accounts to recognise the opening fair value of derivative contracts as at 1 July 2005, net of deferred tax.

# FIVE YEAR STATISTICAL SUMMARY

| (NZ DOLLARS IN THOUSANDS) | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Earnings** | | | | | |
| Sales | 1,300,923 | 928,547 | 654,675 | 632,286 | 419,957 |
| EBITDA (Earnings before Interest, Tax, Depreciation, Abnormals and Goodwill Amortisation) | 103,435 | 81,754 | 74,155 | 65,347 | 52,886 |
| EBITDA as % of sales | 8.0% | 8.8% | 11.3% | 10.3% | 12.6% |
| Depreciation | 21,835 | 17,840 | 12,846 | 14,856 | 12,153 |
| Interest (net) | 19,190 | 15,530 | 13,125 | 13,364 | 8,220 |
| Share of profits of associates | (1,056) | (1,805) | (1,084) | (910) | 312 |
| Minority interests | 1,863 | 635 | - | - | - |
| Tax on operating profits | 23,589 | 16,389 | 15,172 | 12,157 | 9,201 |
| Operating profit | 38,014 | 33,165 | 34,096 | 25,880 | 23,000 |
| Amortisation | 2,593 | 1,335 | 3,276 | 3,393 | 3,896 |
| Abnormal items after tax | (26,552) | (1,263) | 2,406 | 1,832 | 6,461 |
| Net profit | 61,973 | 33,093 | 28,414 | 20,655 | 12,643 |
| **Shareholder returns** | | | | | |
| Equity | 334,747 | 255,015 | 166,035 | 157,467 | 126,527 |
| Number of shareholders | 8,990 | 8,902 | 8,262 | 7,427 | 6,553 |
| Shares on issue at 30 June (,000) | 78,425 | 76,683 | 62,075 | 61,318 | 59,694 |
| Average shares on issue (,000) | 77,565 | 71,528 | 61,859 | 60,492 | 59,017 |
| Net surplus per share (cents) | 79.9 | 46.3 | 45.9 | 34.1 | 21.4 |
| Dividend per share (cents) | 33.5 | 26.5 | 24.5 | 20.0 | 17.0 |
| NZ imputation credit per share (cents) | 10.3 | 13.1 | 12.1 | 9.9 | 8.4 |
| Australian imputation | 100% | 100% | 100% | 52.5% | - |
| **Asset backing** | | | | | |
| Total assets | 1,011,052 | 877,140 | 446,220 | 447,724 | 339,063 |
| Tangible assets | 871,590 | 782,092 | 410,819 | 409,627 | 304,253 |
| Net tangible assets (NTA) | 195,285 | 159,967 | 130,634 | 119,370 | 91,717 |
| NTA as % of tangible assets | 22.4% | 20.5% | 31.8% | 29.1% | 30.1% |
| NTA per share | $2.49 | $2.09 | $2.10 | $1.95 | $1.54 |
| Interest-bearing debt (net) | 344,354 | 325,233 | 170,559 | 177,118 | 114,155 |
| Debt as % of tangible assets | 39.5% | 41.6% | 41.5% | 43.2% | 37.5% |

# SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2006

## Directors' shareholdings

| | | 2006 | 2005 |
|---|---|---|---|
| Fred Holland | beneficial | 75,638 | 71,243 |
| | associated person | 25,859 | 25,859 |
| Robert M. Aitken (appointed 1 July 2006) | | 26,212 | - |
| John W.A. Hirst | beneficial | 39,504 | 33,209 |
| | associated person | 5,308 | 5,000 |
| Bryan N. Kensington | beneficial | 72,758 | 72,758 |
| | associated person | 23,689 | 23,689 |
| Colin G. Martin (resigned 30 June 2006) | | 56,185 | 41,331 |
| David H. Newton | non beneficial | 44,073 | 41,512 |
| Michael R.Wynter | | 2,624 | 2,624 |

## Twenty largest shareholders as at 1 September 2006

| | NUMBER OF SHARES | PERCENT OF ISSUED CAPITAL |
|---|---|---|
| National Nominees New Zealand Limited | 3,739,678 | 4.77% |
| Accident Compensation Corporation | 3,248,085 | 4.14% |
| Peter Hanbury Masfen and Joanna Alison Masfen | 2,841,239 | 3.62% |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 1,644,301 | 2.10% |
| Custody and Investment Nominees Limited | 1,544,237 | 1.97% |
| JP Morgan Nominees Australia Limited | 1,447,591 | 1.85% |
| National Nominees Limited | 1,383,135 | 1.76% |
| Westpac Banking Corporation – Client Assets No. 2 | 1,362,469 | 1.74% |
| Hubbard Churcher Trust Management Limited | 879,797 | 1.12% |
| AMP Investments Strategic Equity Growth Fund | 878,993 | 1.12% |
| Custodial Services Limited | 779,124 | 0.99% |
| Citibank Nominees (New Zealand) Limited | 699,016 | 0.89% |
| NZ Superannuation Fund Nominees Limited | 654,767 | 0.83% |
| Asset Custodian Nominees Limited | 634,708 | 0.81% |
| Investment Custodial Services Limited | 563,018 | 0.72% |
| First NZ Capital Custodians Limited | 504,049 | 0.64% |
| AMP Life Limited | 480,725 | 0.61% |
| ANZ Nominees Limited | 428,961 | 0.55% |
| Custodial Services Limited | 381,040 | 0.49% |
| New Zealand Equity Nominee Pool | 378,899 | 0.48% |
| Total: | 24,473,832 | 31.21% |

## Substantial security holders

There are no shareholders deemed to be substantial security holders in accordance with section 26 of the Securities Amendment Act 1988.

## Distribution of shareholders and shareholdings

| Size of Holding | HOLDERS | SHARES | PERCENTAGE |
|---|---|---|---|
| 1 – 999 | 1,204 | 636,866 | 0.81% |
| 1,000 – 4,999 | 4,971 | 12,112,005 | 15.44% |
| 5,000 – 9,999 | 1,601 | 10,518,456 | 13.41% |
| 10,000 – 49,999 | 1,093 | 19,294,228 | 24.60% |
| 50,000 – 99,999 | 66 | 4,321,654 | 5.51% |
| 100,000 – 999,999 | 47 | 14,330,596 | 18.27% |
| 1,000,000 Plus | 8 | 17,210,735 | 21.95% |

There are 83 shareholders holding 3,244 shares, with less than a marketable parcel of shares.

# STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2006

## Directors

The Board of Directors is composed of:

| | |
|---|---|
| Fred Holland | Chairman, Audit Committee |
| Robert M. Aitken | Audit Committee (appointed 1 July 2006) |
| John W. A. Hirst | Managing Director |
| Bryan N. Kensington | Audit Committee Chairman |
| Colin G. Martin | Audit Committee (resigned 30 June 2006) |
| David H. Newton | Remuneration Committee Chairman |
| Michael R. Wynter | Remuneration Committee |

In accordance with Regulation 10.5 of the Company's constitution, Fred Holland and Michael Wynter retire by rotation. Mr Holland and Mr Wynter, being eligible, offer themselves for re-election. In accordance with Regulation 10.9 (a) of the Company's constitution, Rob Aitken, having been appointed since the last Annual Meeting, retires and being eligible offers himself for election.

## Meetings

During the year ending 30 June 2006, Directors' meetings were held as per the following table:

| | BOARD MEETING | SPECIAL MEETING (BY TELEPHONE CONFERENCE) | AUDIT COMMITTEE | REMUNERATION COMMITTEE |
|---|---|---|---|---|
| Fred Holland | 8 | 5 | 7 | |
| John W. A. Hirst | 8 | 7 | | 8 |
| Bryan N. Kensington | 8 | 6 | 7 | |
| Colin G. Martin | 8 | 7 | 7 | |
| David H. Newton | 8 | 5 | | 8 |
| Michael R. Wynter | 8 | 7 | | 8 |

Board meetings were held at the registered office of the Company (3) and at subsidiary company premises in Sydney (3), Brisbane and Suzhou, China.

The Board also met to conduct a Performance Evaluation and review Corporate Governance Policies and Corporate Strategy.

The Audit Committee met to discharge its responsibilities as outlined in the Terms of Reference.

The Remuneration Committee met to review the remuneration packages of senior executives.

A Nomination Committee meeting was convened to consider the appointment of a replacement director.

## Directors' remuneration

The following amounts were paid to each director in the form of remuneration and benefits:

| | | |
|---|---|---|
| Fred Holland | $160,000 | Fees for the 2006 financial year |
| John W. A. Hirst | A$940,194 | Total remuneration for the 2006 financial year |
| Bryan N. Kensington | $90,000 | Fees for the 2006 financial year |
| Colin G. Martin | $85,000 | Fees for the 2006 financial year |
| David H. Newton | A$90,000 | Fees for the 2006 financial year |
| Michael R. Wynter | A$85,000 | Fees for the 2006 financial year |

## Share dealings

The Board has received the following disclosures of dealings in the Company's ordinary shares:

| ACQUISITIONS | NUMBER OF | CONSIDERATION SHARES | DATE |
|---|---|---|---|
| Fred Holland | 2,528 | $10,340 | 14 October 2005 |
| Fred Holland | 1,867 | $10,325 | 7 April 2006 |
| John W.A. Hirst | 4,000 | $16,440 | 26 September 2005 |
| John W.A. Hirst | 1,320 | $5,399 | 14 October 2005 |
| John W.A. Hirst | 975 | $5,392 | 7 April 2006 |
| Colin G. Martin | 1,467 | $6,000 | 14 October 2005 |
| Colin G. Martin | 12,000 | $47,400 | 27 October 2005 |
| Colin G. Martin | 1,387 | $7,670 | 7 April 2006 |
| David H Newton | 1,473 | $6,025 | 14 October 2005 |
| David H Newton | 1,088 | $6,017 | 7 April 2006 |

# STATUTORY INFORMATION (continued)

FOR THE YEAR ENDED 30 JUNE 2006

| Disclosures of interest | | |
|---|---|---|
| Robert M. Aitken | Director | Alesco Corporation Limited |
| (appointed 1 July 2006) | Chairman | Rubicor Group Limited |
| | Chairman | Formit Services Pty Limited |
| | Chairman | API Securities Holdings Pty Limited |
| | Director | YMCA of Sydney |
| Bryan N Kensington | Chairman | Emerald Capital Limited |
| | Trustee | Royal New Zealand Yacht Squadron |
| Colin G. Martin | Director | AberGas Limited |
| (resigned 30 June 2006) | Deputy Chairman | Centre for Advanced Engineering, University of Canterbury |
| | President | EMA (Northern) |
| | Director | Business New Zealand |
| David H. Newton | Director | Stem Cell Sciences Limited |
| | Director | Stem Cell Sciences KK |
| Michael R. Wynter | Director | Omya Australia Pty Limited |

## Directors' indemnity insurance

As permitted by Regulation 13.4 of the Company's Constitution, directors and employees have been insured against liability for any act or omission in their capacity as directors and employees. Insurance has also been obtained to indemnify directors and employees for costs incurred in defending or settling claims in such liability. The insurance does not cover liabilities arising from criminal actions.

To comply with s162(8) of the Companies Act 1993, directors have certified that the cost of the insurance is fair to the Company.

## Employee remuneration

During the year the following numbers of current and former employees, not being directors of the company, received remuneration of at least NZ$100,000.

| | NZ EMPLOYEES | OVERSEAS EMPLOYEES |
|---|---|---|
| $100,000 – $110,000 | 5 | 80 |
| $110,000 – $120,000 | 6 | 66 |
| $120,000 – $130,000 | 4 | 41 |
| $130,000 – $140,000 | 3 | 31 |
| $140,000 – $150,000 | 4 | 32 |
| $150,000 – $160,000 | | 20 |
| $160,000 – $170,000 | 1 | 12 |
| $170,000 – $180,000 | | 15 |
| $180,000 – $190,000 | | 9 |
| $190,000 – $200,000 | | 6 |
| $200,000 – $210,000 | | 5 |
| $210,000 – $220,000 | | 6 |
| $220,000 – $230,000 | 1 | 3 |
| $230,000 – $240,000 | | 5 |
| $240,000 – $250,000 | | 4 |
| $250,000 – $260,000 | 1 | 2 |
| $260,000 – $270,000 | | 3 |
| $270,000 – $280,000 | | 1 |
| $280,000 – $290,000 | | 1 |
| $290,000 – $300,000 | | 1 |
| $310,000 – $320,000 | | 1 |
| $320,000 – $330,000 | | 1 |
| $340,000 – $350,000 | | 1 |
| $390,000 – $400,000 | 1 | |
| $440,000 – $450,000 | | 1 |
| $460,000 – $470,000 | | 1 |
| $520,000 – $530,000 | | 1 |

## Donations

The Company made donations during the year as follows:

| (NZ DOLLARS IN THOUSANDS) | 2006 | 2005 |
|---|---|---|
| International Red Cross | - | 10 |
| The Salvation Army | - | 10 |

# DIRECTORY

**Corporate**
John Hirst, Managing Director
Graeme Storey, Chief Financial Office/Company Secretary
Tony Cooke, Group General Manager, Operations
Charles Northcote, General Manager – Strategy, Planning and Business Improvement
Stuart Barry, Chief Information Officer

**General Management**
Rob Harmsen, Nuplex Resins Group
Paul Kieffer, Nuplex Resins Europe
Mike Law, Nuplex Resins Australia
Mike Kelly, Nuplex Resins Americas
Ronny Chew, Nuplex Resins Asia
Richard Allan, Resins New Zealand
Ercilia Barahona, Paper Resins
Paul Schott, Composite Resins
Bob Skarvan, Group Purchasing
Sam Bastounas, Specialty Products
Dave Tommas, Polychem/Multichem
David Evans, Construction Products

**Directors**
Fred Holland (Chairman)
John Hirst (Managing Director)
Bryan Kensington
David Newton
Michael Wynter
Rob Aitken

**Auditors**
KPMG

**Solicitors**
Phillips Fox

**Insurance Brokers**
Marsh Limited

**Share Registrars**
Computershare Registry Services Limited
Private Bag 92119
Auckland

**Bankers**
Westpac Banking Corporation
Commonwealth Bank of Australia
Hong Kong Shanghai Banking Corporation
Citibank N.A.

**Registered Office**
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