Press Release

CPI TO ACQUIRE RED PAPER GROUP IN AUSTRALIA

CPI Group Limited (CPI) today announced that it would acquire the Australian operations of The Red Paper Group (Red) to create a new group that would be strongly focused on and committed to the graphic arts, packaging and stationery industries.

As part of the transaction, CPI has sold its New Zealand paper operations to the Red Group in New Zealand, whilst retaining its inks and machinery businesses in that country. CPI and Red have formed a formal trans-Tasman alliance under which the two groups will establish management structures and processes to enable them to work closely together to supply the evolving needs of the Australasian market.

Red's Australian operations generate revenues in excess of $270million across fine papers, office papers, packaging and web paper grades. It employees over 250 people in operations located in all major Australian cities, which broadly mirror CPI's operations in those areas. Whilst it operates in many of the same segments of the paper industry as CPI, there are a number of complementary aspects to the transaction. In particular, Red operates in a number of niche product areas not currently supplied by CPI.

The acquisition is likely to cost approximately $Aud45 million net of the sale of the group's New Zealand paper operations and will be funded by existing cash and debt facilities. It is anticipated to be completed by the end of October 2007 and is subject to no regulatory obstacles being raised. Once complete, the acquisition will more than double CPI's paper revenues in Australia.

The acquisition is anticipated to be earnings per share accretive.

Gerry Van Wyngen, Chairman of CPI, said this was an acquisition that would benefit all stakeholders.

"Combining the two groups in Australia will create a strong, customer focused and profitable business group with turnover in excess of $½ billion," he said.

"This will provide certainty surrounding the future ownership of The Red Group and will enable the CPI, Edwards Dunlop and Raleigh brands to grow to become increasingly strong and robust forces in the Australian paper market."

Mr Bernard Cassell, Managing Director of the CPI Group, said he was delighted with the acquisition and enthusiastic about what it would bring to the group.

"This will create a more robust business with stronger growth prospects, which is good news for all our stakeholders," he said.

Meanwhile it will be "business as usual" for staff and the way the businesses work with customers and:

- CPI will continue to operate the CPI NZ Ink and Machinery business under the existing CPI Graphics name
- CPI will continue to support Edwards Dunlop, Raleigh, CPI Paper, CPI Ink, CPI Machinery and Boomerang Paper, which are distinct businesses in the market
- The group's management is committed to preserving the distinct cultures and sales structure of each entity
- The existing sales staff will be retained and strengthened

- The group will work hard to create back office synergies and achieve financial benefits from its expanded size
- The senior management team that will seek to grow the new group has been established. This clear definition of responsibilities will provide clarity for all stakeholders.

Mr Cassell cited certain conditions specific to the industry as part of the rationale for the acquisition.

"External factors have adversely impacted the group. The acquisition gives us the opportunity to overcome some of these by growing value added areas whilst eliminating low value add processes that are currently duplicated across Red and CPI."

Mr Cassell was also mindful of the prevailing paper price pressures faced by an expanded CPI.

"The price of commodity fine paper is anticipated to remain subdued for the foreseeable future. We are very aware that the industry remains highly competitive. Whilst both Red and CPI have a loyal customer base, we don't intend to let them down in any way on quality and service."

Mr Cassell said the group would implement a 100 Day Plan immediately to oversee the smooth transition.

"A key part of the plan is to identify areas where benefits can be extracted whilst maintaining the distinct identities of each of the operating companies. We have already identified savings of between $1 million and $2 million which can be extracted without affecting these operations," he said.

Mr Bull, Director of sales said "Customers will notice very little change in terms of service and supply. The sales forces of each business will remain separate, as will the customer service teams. Also, each business will continue to offer their distinct range of products to the market."

The group expects to incur some costs in achieving these synergies however they are not expected to exceed the anticipated yearly synergies.

In addition, the group believes that there will be opportunities for working capital savings across the two businesses.

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