

A VERY DIFFERENT CPI

CPI Group
Annual Report
2008



About CPI Group

Founded: The business of CPI was founded in Victoria in 1977. The Company expanded rapidly and was listed on the Australian Stock Exchange in 1992.

ASX: CPI Group's ordinary shares are listed on the Australian Stock Exchange Limited (ASX) under the code CPI.

Staff: 543*

Vision: CPI's objective is to be the primary point of contact for the procurement of Fine Papers, Inks, Proofing Materials, Office Products and Capital Equipment for the graphic arts industry.

Reported sales revenue: \$413 million*

Annualised sales revenue: \$500+ million*

Key services: Paper, Inks, Machinery, Packaging and Office Products

Operations: Australia and New Zealand*

Customers: Over 2000*

* @ 30 June 2008

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A lot has happened in 12 months. We've successfully acquired and integrated the Red Paper Group, we've sold off our New Zealand paper interests, we've expanded our products and services to include office products and industrial packaging, and in the process, we've become a \$500 million company*.

Now we are the #2 paper merchant in Australia, a major supplier of inks, the #2 supplier of machinery to the printing industry, the #2 supplier of office products, and a leading supplier of digital equipment.

We're the CPI Group.

POSI+IVELY DIFFERENT

* Annualised sales revenue for the Group including a full year's trading of Edwards Dunlop and Raleigh Paper (the Red Paper Group)



“Your Board, together with the Management team, have been working diligently on a strategic plan to achieve the maximum benefits of rationalisation and consolidation within the new expanded group”

Chairman’s message

2008 WAS A YEAR OF SIGNIFICANT CHANGE WITHIN YOUR GROUP. DURING THE YEAR THE COMPANY SUCCESSFULLY ACQUIRED THE BUSINESSES OF THE FORMER RED PAPER GROUP IN AUSTRALIA WHILST AT THE SAME TIME SELLING ITS NEW ZEALAND PAPER DISTRIBUTION BUSINESSES TO THE SAME ORGANISATION.

This transaction transformed the Group from being predominantly a fine paper merchant in Australia and New Zealand, to a group with a much larger footprint in Australia and a reduced footprint in New Zealand. The Managing Director will talk more about this in his report. The consequence of these changes is that the Group now has a turnover of an annualised basis of over \$500 million of which more than 95% will now be derived in Australia.

My predecessor as Chairman had on several occasions mentioned that the Group believed in the merits of industry rationalisation. There is little doubt that we operate in an over-served sector. The acquisition of the former RED Paper Group will enable the Group to embark on this path. The price paid of Net Tangible Assets is represented almost entirely by inventory and receivables and provides significant opportunities for range rationalisation and consolidation.

Of course with all acquisitions of this nature the hard work does not end with the acquisition but in fact commences with it. Your Board, together with the Management team, have been working diligently on a strategic plan to achieve the maximum benefits of rationalisation and consolidation within the new expanded group. The first of these measures are already well underway and we expect to be able to report further to shareholders at the Annual General Meeting.

After starting the year satisfactorily the business environment deteriorated significantly, particularly in the last quarter. The tightening of the financial markets will no doubt put pressure on all parties in the year to come. The Group’s own finance facilities extend through until 2010.

Also during the year the Group was successful in its appeal against the decision in its court case with a major former shareholder and supplier. This successful appeal has resulted in a \$5.7 million gain for the Group. We are delighted to have been successful in this court case and believe that our actions in taking the course that we did have been vindicated.

I would like to thank my predecessor as Chairman, Mr Gerry van Wyngen for the work he has done over the last few years in helping steer the company from the very precarious position it found itself in when he took over as Chairman. At that stage the Group faced very significant challenges following the technological changes that wiped out a major part of the business. The changes that followed were difficult and demanding but were successful in placing the company on a sound financial footing which then enabled the acquisition referred to earlier to occur.

Finally I would like to thank the staff for their efforts during the year which has been another demanding year in a market where pricing continued to fall. I would particularly like to welcome and thank the staff of the former Red Paper Group for embracing CPI in the manner that they have. We have approached the acquisition as one of a merger and we are pleased to say that we have received full support from all the employees who joined us. The environment remains challenging but we are confident that we have a talented and committed group of employees who are working hard to improve returns in the company.

Peter Reilly
Chairman

“The acquisition has made the Group the clear number two distributor of fine paper throughout Australia”

Managing Director's message



2008 WAS A YEAR WHICH SAW CONTINUING CHANGE THROUGHOUT THE PULP AND PAPER INDUSTRY INCLUDING AND IN PARTICULAR WITHIN YOUR OWN COMPANY.

The year saw the acquisition of the former Red Paper Group in Australia and the sale of the Group's paper distribution business in New Zealand. The acquisition has made the Group the clear number two distributor of fine paper throughout Australia and it is in a position where it can now seek to extract significant benefits from the acquisition.

The business environment throughout the year changed from one of reasonable optimism at the start of the year to significant pessimism at the end of the year. Volumes in the last quarter were particularly affected as a result of the tightened financial environment.

The Group continued to maintain a strong focus on cost control and we believe that costs have been maintained to a reasonable level throughout the year. All parts of our business continue to be examined in order to see where further cost savings can be achieved.

Control of working capital was another area of special attention throughout the year. Unfortunately however the significant slowing in the business environment caused working capital to expand. Given the lead times that operate when acquiring inventory from overseas suppliers, a sudden and unexpected slowdown in the domestic environment has an immediate impact on inventories. The Group adjusts its forward purchasing as soon as it becomes aware of any change in the environment, but with lead times of three to four months it is inevitable that a slowdown will lead to these temporary overstock positions.

In October last year we received the welcome news that the Group had been successful in its appeal against the adverse legal decision which had been handed down in the prior year. The successful appeal has resulted in the recovery of \$5.7 million from its former shareholder and supplier. This case had arisen when the Group's major supplier, who at the time was also a shareholder and represented on the Board, asked the Group to take over supply to a long standing customer. What we were not told was that the long standing customer had been failing to meet his payment terms for two years. The Full Federal Court of Appeal upheld our position that the supplier had an obligation to advise us of the true situation regarding this customer. Needless to say that company is no longer a shareholder or represented on the Board of the Group.

FINE PAPER

The acquisition of the former Red Paper Group in Australia and the simultaneous sale of the Group's fine paper interests in New Zealand have reshaped the Group into one which is predominately focused on Australia. The fine paper operations are now approximately 70% of the Group's activities. These are currently conducted through four separate business units, two of which are specialty merchants operating in market niches and the other two merchants supply the general offset printing market. The immediate objectives of the Group in the post acquisition period were to ensure that all customers, suppliers and

Managing Director's message

staff were comfortable with the new ownership of the businesses, and to ensure that stability was retained throughout all businesses. I am happy to report that the acquisition was well received by all and that loss of key staff has been virtually nil since the acquisition. Suppliers have also indicated a high level of comfort with the fact that the former RED Paper operations are now owned by a committed paper merchanting company.

Since the date of the acquisition the Group has been very focused on areas in which it can achieve efficiency dividends as a result of streamlining processes and back office operations throughout the businesses. A number of these savings have already been achieved and a strategic plan developed to enable further savings to be achieved over the course of the next twelve to eighteen months. Throughout all these changes it is our intention to maintain the same face to the customer base as has always been the case. The customer base has so far indicated that it is very happy with the developments since the acquisition and there has been widespread support in the market for what we have achieved.

The next phase will focus on consolidation of warehousing facilities and efficiencies in customer service and transport. We believe that there are significant savings to be made in these areas and we will report further at the AGM.

The market environment for most of the year whilst not buoyant was reasonably solid. However toward the end of the financial year, in particular the last three months, a very significant slowdown occurred in the sheet-fed industry. This has impacted demand across most parts of the business.

The global environment continued to be one of capacity reductions throughout Europe and America and capacity expansions throughout Asia and particularly China. The price of paper continued to decline throughout the year.

Pricing for most grades of paper declined gradually throughout the entire financial year however, since 30 June we have seen a very significant drive for price increases by all suppliers. These increases are of necessity being passed on to customers and to date we have observed similar price increase announcements from all of our competitors. At the time of writing indications are that these price increases will continue for the next few months at least. The major drivers behind the increases are a firm pulp price, tight capacity and the increased cost of chemicals, transport and power. It should be noted that this is the first really concerted push by suppliers for price increases in recent memory.

OFFICE PRODUCTS

One of the major product changes to have occurred as a result of the acquisition is the fact that the Group has now become a very significant supplier of office products to the re-seller industry. We believe we are now the number two supplier in this area. Products in this division include copy paper, laser paper and stationery. This business unit represents approximately 20 to 25% of total turnover.

Demand in this area has been solid and there are signs that the coming back to school season will be a strong selling period. The Group previously had a relatively small proportion of its sales in copy and laser paper. Following the acquisition, all sales of these products have been concentrated within the office products division of the acquired Edwards Dunlop business. With a permanent focus from an established specialist selling team we are confident that this portion of the sales can be grown in the future.

In common with fine paper, the majority of products sold by the office products division have also been subjected to strong cost increases from suppliers. At this stage it would appear that all suppliers are forced to pass these increases on as they are too substantial to be absorbed. The major reason for price increases in this sector are the same as those for fine paper as the majority of the products are paper based.

MACHINERY

After two very successful years machinery products had a difficult year. Having started the year with a strong order book we found that the majority of customers put their capital purchases on hold following the announcement of the election. This continued even after the election and it appears most customers then waited until the Drupa Trade Fair before they made any further decisions on new equipment.

The Drupa Trade Fair is the world's largest printing equipment exhibition. It occurs each four years and is generally attended by a very large number of printers from Australia and New Zealand. Whilst it is apparent that the number of printers attending Drupa was down on previous shows, it seems that those printers attending were more interested in buying product than visitors to the show normally are. As a consequence we were very pleased with the order intake during the show. This has given the machinery division a strong start to this financial year and we are hopeful that this year will see a return to full profitability.

OUTLOOK

At this stage the outlook for the coming financial year is mixed. The price of paper seems set to continue to rise at least as far as the next six months is concerned. The price of pulp remains firm and the price of chemical, power and transport also seem set to remain high. In addition the recent dramatic fall in the value of the Australian dollar will see overseas suppliers in particular want to push prices higher in order to recover their yields from this market.

On the demand side however, we continue to see weakness amongst sheet-fed printers with demand levels down on prior years. Wherever possible the Group is seeking to sell value added products in order to replace the high volume items where demand appears most affected.

Of course the focus for the Group going forward is to extract the maximum efficiency dividends from the larger footprint that we now possess. We have identified a significant number of potential savings and these will be vigorously pursued.

Finally I would like to thank my staff who have provided me with strong support throughout what has been a difficult, complex and demanding year. I am particularly pleased with the loyalty and commitment from both the existing CPI staff and the staff who have joined the Group as a result of the acquisition last December.



Bernard Cassell

Managing Director

Competitive advantages

To succeed in our industry, we believe a company has to have competitive advantages in six key areas: scale, geography, products and services, service and sales culture, brands and most importantly, people. We believe the CPI Group is fortunate to have considerable strength in all six.

Scale

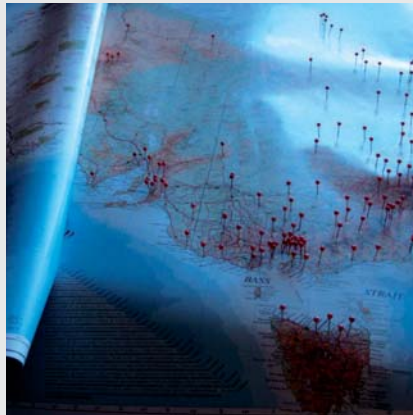


The CPI Group is Australia's largest independent supplier to the graphic arts industry.

Not only are we the #2 paper merchant in the region, we're also a major supplier of inks, the #2 supplier of machinery to the printing industry, the #2 supplier of office products, and a leading supplier of digital equipment.

With long standing relationships with some of the world's leading brands our complementary but diverse group of products means we offer our customers a greater range of first-class products and expertise from one group.

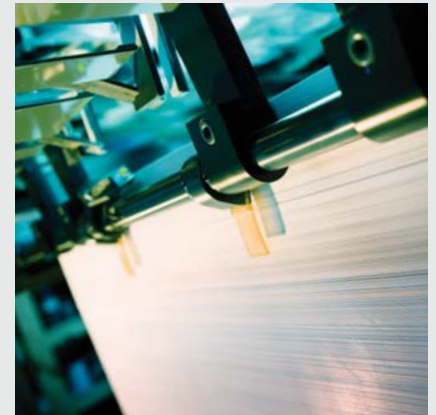
Geography



Everyday, from our network of offices and distribution centres we serve thousands of customers across Australia and New Zealand. And a great many of them consider the CPI Group their primary provider.

The geographic spread of our offices and warehouses provides invaluable local expertise and support to our customer base whilst minimising our distribution costs.

Products and services



Our products and services are the most comprehensive in our industry. For our customers this means unique access to an extensive range of the best products and services supported by unrivaled capabilities, knowledge and expertise.

Our specialisation in paper, office products, packaging, ink and machinery is supported by strong global strategic supply alliances.

Service and sales culture



Every day more than 4,000 items are picked and despatched by the CPI Group for customers across the nation.

To achieve this kind of service reliability takes a modern, dynamic logistics management system, and a staff of experienced, knowledgeable ‘can-do’ employees. From our sales and specialist teams to our warehousing and distribution networks, the commitment to deliver what we said we would, competitively priced and on-time, is our stand-out priority. Our front-line people are backed by sophisticated IT systems, skilled support staff and by a management team that is focused on providing our customers the highest value for their dollar whilst delivering a superior return to shareholders.

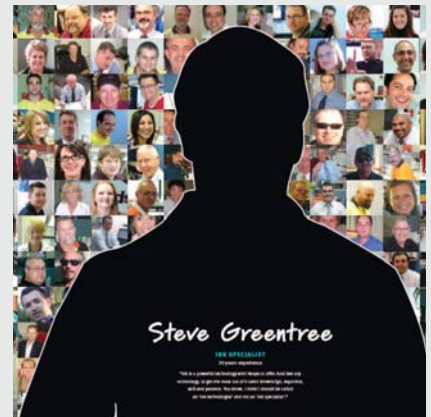
Brands



You don't get to be a \$500 million company, and a leading player in a national market, without understanding the power of having the best brands in your portfolio. Well-known leadership brands — the best in their respective categories — have a positive effect on customers...they respond to them because they trust them.

Here at the CPI Group, we continue to build value in our enduring marketplace brands in fine paper, office products, packaging, machinery and inks.

People



We know paper, inks, machinery, packaging and office products like nobody else.

What makes the CPI Group different is the collection of knowledge, skills and deep industry-specific expertise we have in paper, inks, machinery, packaging and office products. It's something nobody else in our region can offer. Also, real advantage is found only when knowledge is applied to solve problems and provide solutions for customers, quickly and cost effectively. This requires learning, understanding, insight, skill and experience—in other words, great people.

POSITIVELY DIFFERENT

A commanding portfolio of complementary businesses

The CPI Group is a unique and powerful mix of balanced businesses and brands focused on providing the Australian graphic arts, packaging and stationery industries a range of solutions they can't get from anybody else.

We offer our customers the most comprehensive range of branded products, services and solutions in paper, inks, machinery and office products available today.



Raleigh Paper



edwards dunlop paper



Boomerang Paper



Fine Paper

Whether premium papers from Raleigh, reels for business forms from Boomerang, packaging and office products from Edwards Dunlop or graphical papers from CPI Paper, our portfolio of fine papers within our specialist businesses have our customers covered!



Machinery

Our customers are believers in the power of 'technology driven innovation' to advance their businesses. We are a leading provider of printing and finishing technologies in our region.





Inks

World class solutions for local conditions from Australia's ink professionals. High quality inks, UV and aqueous coatings and press room consumables to suit every printing press in all conditions.



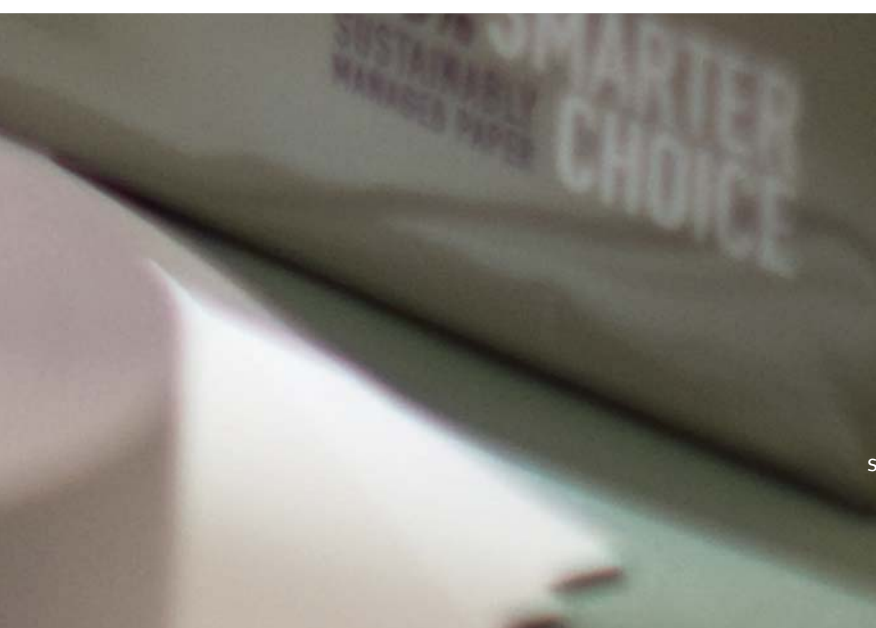
Heatset Web Grades

A specialist division providing low cost and effective supply chain solutions on specific purpose papers for web printing.



Industrial packaging

Focusing on the supply of locally manufactured as well as imported food service and general packaging papers. "WRAP IT, BAKE IT, PACK IT or SHIP IT" Edwards Dunlop Packaging has the broadest range of products available for packaging.



Office products

Supplying Australia with a comprehensive range of globally sourced, office, home office, scholastic paper and stationery products. Our fully integrated end-to-end logistics systems manage the world's leading brands. Our products meet the ever higher environmental credentials required by a range of house-hold name national retailers.

Fine Paper



'Australia's volume commodity paper merchant' underpinned by the world's 'best practice' manufacturers, significant technical resources and national availability of deep inventory.



Raleigh Paper

The leading supplier of innovative paper solutions for the printing industry and the creative sector. A trend setter in environmentally advanced papers.



edwards dunlop paper

A national merchant distributor of trusted industry brands in fine paper. An Australian icon, supplying the printing industry for more than 100 years.



Boomerang Paper

Australia's specialist provider of uncoated, carbonless, thermal papers, business forms and envelope grade. Specialist converting services for both trade and direct customers.



OUR GLOBAL REACH

Equity participation in Europe's IGEP, pan European distributors to the printing industry.



SPECIALISTS

Whether volume commodity, converted industrial grade, or premium fine paper, we have an efficient channel to the market supported by both experience and expertise.



COMMENTARY

The financial year saw the renovation of two key products for **Edwards Dunlop Paper**. The 'Brilliant' range of white smooth uncoated paper was re-launched at functions in the eastern states. Onyx; 100% OZ, 100% recycled, draws on Australia's ethnic diversity for its attractive promotion.

Raleigh Paper introduced 'Heaven 42', a new super white product from German manufacturer Scheufelen.

CPI Paper has partnered with key strategic supplier SAPP, the world's largest producer of coated paper, in a national role out of two key European brands, Magno and Quatro.

Office products



Servicing Australia comprehensively with a range of globally sourced leading office, home and scholastic paper and stationery products.

THREE DYNAMIC PRODUCT CATEGORIES

- Office Paper
- Office Stationery
- Scholastic and Home Stationery



STRENGTHS

- Global sourcing
- Comprehensive range
- Integrated logistics capabilities
- Specialist Office Products sales team
- Leading brands



COMMENTARY

The newly combined group saw Edwards Dunlop Office assemble a portfolio of power brand names in the office paper market. Double A continued to perform strongly and the back to school season was one of the strongest in years forming a strong base for next season. Late in the year an exclusive supply

deal was negotiated with April Fine Paper to supply Paper One to all markets in Australia. This agreement is expected to contribute strongly to results in the coming year with ranging already secured in all major channels.

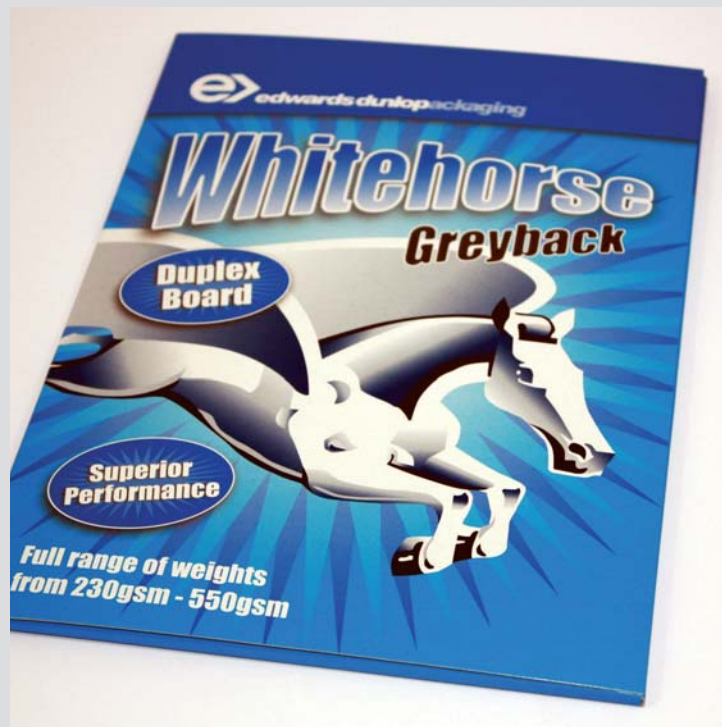
Industrial packaging



Servicing Australia with a comprehensive range of both graphical and industrial packaging solutions.

BOARDS

- Graphical
- Folding box board
- Carton board



INDUSTRIAL & FOOD SERVICES

- Apmil range
- Chicken bags
- Glassine rolls
- Greaseproof bag reels
- Baking paper
- Jiffy bags



COMMENTARY

In 2008 we went to market with a revamped offering of Food Service Papers.

Bake it, Pack it, Wrap it, Ship it, was the message that underpinned the new & broad range of papers available for food specific applications to enhance our overall portfolio.

Our innovative Edward's Dunlop Packaging division has benefited via the synergy that CPI Group's converting capacity and expertise has brought to our supply chain for carton boards and food services products.

Machinery



CPI Machinery is the leading supplier of printing and finishing equipment to customers in Australia, New Zealand, Papua New Guinea and the neighbouring islands in the Pacific Ocean.

OUR DYNAMIC PRODUCT & SERVICE CATEGORIES

- Komori Printing Presses
- Commercial finishing
- Digital printing and finishing
- Used machinery
- National servicing

Our portfolio of world-beating brands means the right solutions for our customers. Every time.



KOMORI CORP

Japan's No1 manufacturer, designing and building printing presses for 80 years and a 30 year partnership with the CPI Group. Komori Corporation has EU awarded global ECO accreditation.



COMMENTARY

Leading eco-friendly printing systems delivering unbeatable quality while minimising the use of resources, labour and energy.

Komori is the leader in environmental developments in the printing industry. The company actively develops environmentally responsive products

that minimize the release of hazardous chemical materials and reduce noise levels during printing. Komori's Lithrone S Series was awarded Europe's globally accredited Emission Test Certificate in May 2006 for maintaining the strictest standards in the control of hazardous chemical material emissions.

Inks



Australia's ink professionals – supplying inks, blankets and chemicals to the printing industry for over 15 years.

SPECIALISED INK AND PROOFING SERVICES

- Inks, Coatings, Press aids
- Specially mixed corporate colours
- Special match inks
- Proofing

STRENGTHS

- Extensive range of ink types
- Suitable for all presses and especially Australian conditions
- Specialised knowledge and expertise
- Comprehensive range
- On site testing

OUR BRANDS:



COMMENTARY

Within the uniquely broad CPI Group our ink and press room consumables team have benefited via acquisition during the year as well as the introduction of new products and expanded services.

The new 'Speedy Dry' partnership with CPI Inks addresses the vagaries of press room chemistry in

the pursuit of optimal compatibility between ink and paper. Drying normal ink faster.

Our team assists printer customers who service Australian corporates in the management of 'brand and logo integrity' by effective colour matching to different papers.

“How our industry addresses the environment and sustainability is an important issue in the wider community.”

Sustainability

Our challenges

By any measure we are a very large supplier of paper products to the printing industry, which ranks, in Australia's case, as the country's fourth largest manufacturing industry. The industry is facing a concerted effort by some large organisations to reduce the use of printed communications in pursuit of cost savings. Glibly stated and under the guise of 'using less trees' it transfers the cost of accessing information from the company to the individual at home. Moreover, it does so in an environmentally inefficient way as the information is often first accessed and viewed using energy hungry computers and then reproduced on small output printers.

The use and regrowth of trees in the modern paper industry is not deforestation

The overwhelming majority of industry companies practise sustainable forestry by harvesting less than they grow and using international 'well managed forest' standards. These standards include thinning to facilitate sunlight for stronger growth whilst enhancing CO₂ storage via the process of carbon sequestration.

Our environmental initiatives

REVIEWING SUPPLY PARTNERSHIPS

This year we enhanced and added to our partnerships with global environmental best practice organisations. More of our volume migrated to leading environmental manufacturers who have satisfied CPI Group's need to range products with superior 'eco' credentials. In doing so, we have kept ahead of customer expectation.

OFFER CHAIN OF CUSTODY

An environmental chain of custody (CoC) process establishes a link between responsible production of forest products and their end use (e.g. printed material and office papers). It thereby enables the consumer to make socially and environmentally responsible purchasing decisions. A fundamental plank in establishing the chain of custody is the concept of independently verified audits to provide certified assurance for all participants in the supply chain. CPI Group has embraced this concept wholeheartedly.

The FSC and PEFC certification schemes are the two most established and best known of all such certifications. Whilst there are some differences between these schemes the core principles of both are:

- Promotion of environmentally, socially and economically sustainable forest management practices
- The offering of chain of custody on certified products
- The conducting of independent third party audits to ensure compliance

All CPI Group warehouses nationally are certified to Forest Stewardship Council standards (SCS-COC-000941) and during 2008 were certified PEFC CoC (PEFC/21-31-23).

CLEARING THE AIR

The CPI Group believes in the promotion of sustainable forests and responsible paper making. In order to 'clear the air' we have conducted, nationally and continuously, information sessions for customers and, in many cases, our customer's customers. These sessions are designed to simplify and demystify the language of environmental certification and to discuss the facts behind today's key environmental issues.

UNDERSTANDING THAT IT'S MORE THAN JUST TREES

Environmental Management Systems (EMS) are in place at key CPI Group suppliers. The most robust of these is the accreditation known as EMAS (Eco Management and Audit Scheme). Beyond regulatory compliance, EMAS involves participants in reporting their environmental performance for public scrutiny and external auditing, and is predicated on the notion of continuous improvement. Today a record number of CPI Group's key brands offer EMAS accreditation, combined with either FSC or PEFC Chain of Custody – giving them the best in environmental credentials.

ENVIRONMENTAL POLICY

How our industry addresses the environment and sustainability is an important issue in the wider community. The CPI Group is actively aware of its Corporate and Social Responsibility to its employees, customers and stakeholders. We believe that protecting the environment should be everybody's business and thus CPI has taken steps to actively pursue an environmental policy that goes beyond regulatory compliance for the benefit of all.

Board of Directors



⤴
Mr Peter Thomas Reilly
Non-Executive Chairman
Age 56

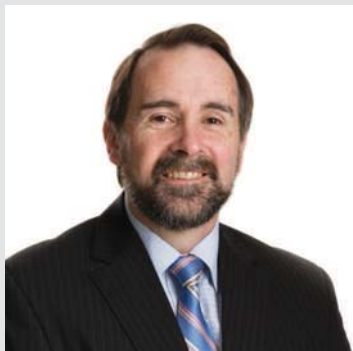


⤵ **Mr Bernard Phillip Cassell**
Executive Director &
Managing Director
Age 57

Mr Gerry van Wyngen
Non-Executive Director
Age 65
⤵



Mr Denis William Goodrem ⤵
Executive Director
Age 57



Mr Darryl Abotomey
Non-Executive Director
Age 52



Mr David Gordon Bull
Executive Director
Age 36



Mr Lachlan Duncan
Company Secretary
Age 45

CPI GROUP LIMITED AND CONTROLLED ENTITIES
ABN 33 006 364 067

Financial Report

For the year ended 30 June 2008

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Directors' Report

The Directors present their report together with the financial report of CPI Group Limited (parent entity) and of the economic entity for the year ended 30 June 2008, and the auditor's report thereon.

Directors

The Directors of the parent entity in office during or since the end of the financial year are:

Mr Peter Thomas Reilly	Chairman
Mr Gerry van Wyngen	Non executive Director
Mr Bernard Philip Cassell	Managing Director
Mr Denis William Goodrem	Executive Director
Mr David Gordon Bull	Executive Director
Mr Darryl Abotomey	Non executive Director

Details of the qualifications, experience and special responsibilities of the Directors and details of the Directors' beneficial shareholdings in CPI Group Limited are set out on subsequent pages of this report.

Principal Activity

The principal activities of the economic entity during the year comprised the sale and distribution of paper products, printing equipment and ink products to the commercial offset printing industry.

Results

The consolidated profit of the economic entity for the year was \$3.3 million after income tax (2007: \$4.2 million loss after income tax).

Dividend Paid or Proposed

	2008 \$000s	2007 \$000s
Interim dividend for the year ended 30 June 2008 (1 cent per share)	579	–
	579	–

In addition to the above dividend, since the end of the financial year the Directors have recommended the payment of a final dividend for the year ended 30 June 2008 of \$579,000 (1 cent per share) to be paid on 30 September 2008.

Directors Review of Operations

External factors affecting the global paper industry remained largely unchanged during the financial year. Excess capacity was evident in most segments of the industry leading to continued downward pressure on pricing for most of the year. Towards the very end of the year some evidence of a firming in paper prices emerged. Customer consolidation continued.

During the year the economic entity acquired the Australian businesses of the Red Group, being Edwards Dunlop and Raleigh Paper effectively doubling the size of the economic entity in Australia. At the same time the economic entity sold its paper operations in New Zealand retaining only its machinery and ink operations in that country.

The Group successfully appealed against a legal judgement handed down against it in relation to the dispute with a former supplier, Stora Enso Group. This resulted in the recovery of \$5.7 million paid as part of the adverse judgement in the prior year.

Financial Position

The net assets of the economic entity have increased from \$48.4 million as at 30 June 2007 to \$51.2 million as at 30 June 2008, resulted largely from the following factors:

- Net profit for the Group of \$3.3 million. The result includes \$5.7 million from the awarding of a legal judgement in the Group's favour and a write off of \$2.5 million in relation to the payment for a right of first refusal over the Edwards Dunlop NZ business.
- Cashflow hedge favourable movement of \$3.3 million. Prior to 1 January 2008, the Group entered into cashflow hedges for highly probable forecast transactions. From 1 January 2008, the Group has modified its strategy and now accounts for cash flow hedges against firm commitments only.
- Share buy-back of \$2.3 million
- Interim dividend payment of \$0.6 million

The Group's level of underlying net debt, represented by the gross debt less cash and cash equivalents, has increased significantly as a result of the acquisition of the Red Paper Group in Australia.

	2008 \$000s	2007 \$000s
Cash and cash equivalents	3.4	9.7
Borrowings	(62.6)	(31.5)
Net Debt	(59.2)	(21.8)

The Group's funding arrangements consists of a \$99.0 million (2007: \$90.0 million) GE revolving credit facility, with a maturity of May 2010. The facility is secured through a mix of eligible collateral comprising of accounts receivable and inventory to the lesser of the facility limit or the available eligible collateral. The Group's eligible collateral exceeds the facility limit at 30 June 2008. The facility is also subject to usual provisions such as lending covenants and various financial undertakings. The facility is a variable rate facility. The average variable interest rate for the year was 8.39% (2007: 7.51%).

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the economic entity not already discussed above or in other sections of the Report including:

Events Subsequent to Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Future Developments, Prospects and Business Strategies

The economic entity will continue to pursue its objective of increasing the profitability and market share of its business in the future. This will include initiatives to grow the current sales of paper products, printing equipment and ink products.

Information as to likely developments, future prospects and business strategies of the operations of the economic entity and the expected results of those operations have not been included in this report as the Directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the economic entity.

CPI Group Ltd continues to examine its activities and opportunities to improve its performance and financial stability so as to deliver value to its shareholders. The paper industry remains extremely competitive in particular in Australia, with robust competition and low selling prices. Globally, the industry is fragmented and there remains a need for industry consolidation.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Environment Regulation Performance

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Information on Directors

Mr Peter Thomas Reilly (Age 56), Non executive Chairman

Mr Reilly joined the Board as a non executive director in February 2002 and was appointed Chairman in March 2008. Mr Reilly has a Bachelor of Business in Accounting and is an Associate of the Institute of Chartered Accountants in Australia. He has over 30 years of commercial experience in executive roles.

Other current Directorships

- Tolhurst Noall Group Limited since 2005
- Marbletrend Group Limited since 2003

Former Directorships in the last 3 years

- None

Special Responsibilities

Mr Reilly is chairman of the remuneration sub-committee and a member of the audit sub-committee.

Mr Bernard Philip Cassell (Age 57), Executive Director & Managing Director

A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Cassell worked for 12 years within the chartered accountancy profession before moving into the industry. He has 25 years experience in the paper industry, 24 years of which are with the economic entity. He has been a director since 1992 and was appointed Managing Director on 5 September, 2003.

Other current Directorships

- None

Former Directorships in the last 3 years

- None

Mr Denis William Goodrem (Age 57), Executive Director

Mr Goodrem has 36 years experience in the paper merchandising industry and was a co-founder of the economic entity's operations in New South Wales in 1981. He is currently the primary director responsible for supplier discussions. He has been a director since 1985.

Other current Directorships

- None

Former Directorships in the last 3 years

- None

Directors' Report (continued)

Mr Gerry van Wyngen (Age 65), Independent Non executive Director

Mr van Wyngen was previously a non executive director during the period 1992-1997 and rejoined the Board as chairman in February 2002. He resigned as chairman in March 2008 and remains a non executive director. Mr van Wyngen is an investment banker and is principal of Gerry van Wyngen & Associates. His experience includes chief executive of a number of merchant banks and director of a number of public companies, both domestic and international.

Other current Directorships

– Dolomatrix International Limited (Director since 2006)

Former Directorships in the last 3 years

– None

Special Responsibilities

Mr van Wyngen is a member of both the audit and remuneration sub-committees.

Mr David Gordon Bull (Age 36), Executive Director

Mr Bull is responsible for the economic entity's sales and marketing activities. He has been an employee of the economic entity since 1990, when he joined as a cadet in the New South Wales operations. Following a significant tenure as the economic entity's group sales manager, Mr Bull joined the Board in May 2005 as an Executive Director.

Other current Directorships

– None

Former Directorships in the last 3 years

– None

Directors' Meetings

During the year, the parent entity held 10 meetings of Directors. The names of Directors and members of Committees of the Board are outlined below. The attendance of the Directors at meetings of the Board and of its Committees was:

Director	Meetings of Directors of the Parent Company		Audit Committee		Remuneration Committee	
	Eligible to Attend	Number of Meetings Attended	Eligible to Attend	Number of Meetings Attended	Eligible to Attend	Number of Meetings Attended
P. T. Reilly	10	10	2	2	4	4
B.P. Cassell	10	10	–	–	–	–
D.W. Goodrem	10	10	–	–	–	–
G. van Wyngen	10	10	2	2	4	4
D.G. Bull	10	10	–	–	–	–
D. Abotomey	10	9	2	2	4	4

As at the date of this Directors' Report, the parent entity has an appointed audit committee of the Board of Directors, chaired by Mr Abotomey and a remuneration committee of which Mr P. Reilly is Chairman.

Mr Darryl Abotomey (Age 52), Independent Non executive Director

Mr Abotomey has over 27 years experience in the paper industry, predominantly with the Amcor and PaperlinX Groups, having held a number of senior executive roles, including six years as Finance Director of PaperlinX Ltd. He joined the CPI board in February 2007. Mr Abotomey has significant experience with businesses in Australia, North America and Europe. Mr Abotomey holds a Bachelor of Commerce, is a Fellow of the Australian Society of CPA's and is a member of the Institute of Company Directors.

Other current Directorships

– Repco Group Holdings Pty Ltd since 2007

Former Directorships in the last 3 years

– PaperlinX Ltd 2000 to 2006

Mr Abotomey is Chairman of the Audit Committee and a member of the Remuneration Committee.

Information on the Company Secretary

Mr Lachlan Duncan was company secretary at the end of the financial year. He holds Bachelor of Business (Marketing) from the Chisholm Institute of Technology. He is also the Commercial Manager for the Group. Mr Duncan has been an employee of the economic entity since 1999, holding IT and management roles during that time. He previously worked in marketing, business analysis and IT positions.

Indemnification of Officers

During the financial year, CPI Group Limited paid an insurance premium of \$51,846 in respect of a contract insuring each of the Directors of the parent entity named earlier in this report and each Executive Officer and Director of controlled entities, against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law.

In addition, an indemnity agreement exists between CPI Group Limited and each of the Directors and Secretary of the parent entity named earlier in this report and with each Executive Officer and Director of all controlled entities. Under the agreement, the parent entity has agreed to indemnify these officers against any claim or for any expenses or costs that may arise as a result of work performed in their respective capacities.

Remuneration Report

The Board has responsibility for the strategic direction and operational management of the entity. Due to the size and nature of operations, the entity has only one executive who is also directly accountable and responsible for strategic direction and operational management.

This report details the nature and amount of remuneration for each director of CPI Group Limited, and for the Executive.

Remuneration Policy

The remuneration policy of CPI Group Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of CPI Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the Board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives, which may or may not include options. The remuneration committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

- The performance of executive directors and executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value. All bonuses and incentives payable to certain executive directors must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations.
- Executives are also invited to participate in the employee share and option arrangements from time to time.
- The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.
- All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.
- The Board's policy is to remunerate non executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non executive directors are not linked to the performance of the economic entity.

Performance Based Remuneration

As part of each executive director and executive remuneration package there is a performance-based component. This is to facilitate goal congruence between remuneration of directors/executives with that of the business and shareholders. The Remuneration Committee reviews the performance-based components of executive director and executive remuneration annually, making recommendations to the Board where appropriate.

The performance based components of Mr Cassell and Mr Goodrem are formalised in pre-determined criteria that incorporates certain key performance indicators (KPI's). The KPI's are set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPI's target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals.

Directors' Report (continued)

Performance in relation to the KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPI's achieved. Following the assessment, the KPI's are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPI's are set for the following year.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus, and the second being the issue of options to executives to encourage the alignment of personal and shareholder interests. At the time of writing this report, the directors have proposed to the members that an Executive Share Plan be introduced to further align key executives interests with those of the shareholders.

Given the significant changes and challenges faced by the Group over the last five years, any attempt to link this policy to the shareholder wealth and performance of the economic entity over that time is not considered meaningful. With the exception of an interim dividend of 1 cent per share which was paid in March this year, and recommendation of final dividend to be paid of 1 cent per share, the Group has not declared any ordinary dividends as a result of the trading difficulties encountered by the Group. The share price has fluctuated significantly over that period and was trading at a considerable discount to net tangible assets at the date of this report.

During 2007/2008 and in prior years, shares issued to former employees were bought back via an off market transfer, at their original issue price. Their buy back prices were higher than the price at which shares were being traded at that time, which is in accordance with the rules of the Employee Share Purchase Plan.

Options Issued as Part of Remuneration for the Year Ended 30 June 2008

No options have been issued to directors and executives during the year ended 30 June 2008.

Employment Contracts of Directors and Senior Executives

Mr Cassell and Mr Goodrem, both executive directors, are employed under fixed three-year contracts of employment ("the Contracts"), which commenced on 1 July 2003 and expired on 30 June 2006. The Service Agreements expired on 30 June 2006 and have each been extended on a rolling 12 month basis until terminated by the Company or the Executive in accordance with the terms outlined above. All other terms and conditions remain unchanged.

Mr Bull, an executive director, is entitled to termination payments in accordance with the CPI staff handbook, such that in the event of a retrenchment or redundancy and upon 1 months written notice he is entitled to three weeks termination pay for every year of service capped at a maximum of 12 months total remuneration, plus statutory leave entitlements upon providing 1 month's written notice.

Mr Duncan's employment conditions are formalised in a letter of employment. In the event of a retrenchment or redundancy and upon the provision of one months written notice, Mr Duncan is entitled to three weeks termination pay for every year of service capped at a maximum of 12 months total remuneration plus statutory leave entitlements.

Notice Periods and termination payments payable under the Contracts for Mr Cassell and Mr Goodrem

The employment contracts for Mr Cassell and Mr Goodrem may be terminated in any of the following circumstances:

- (i) immediately by written notice from the Company to the Executive upon the occurrence of any of a number of specified events in which case the Executive receives any unpaid remuneration, pay in lieu of any annual leave entitlement, pay in lieu of any long service leave entitlement and any other benefits due to the Executive pursuant to any share plan or other relevant plan established by the Company (collectively "the Base Payment");
- (ii) upon not less than 12 months prior written notice being given by the Company to the Executive or by the Executive to the Company in which case the Executive will receive the remuneration that would have been paid to him for any part of the notice period for which he is not employed by the Company plus the Base Payment;
- (iii) by not less than 30 days prior written notice given by the Executive to the Company at any time during the period within 6 months of a significant diminution or significant change lessening the significance or status of the employment of the Executive having occurred in which case the Executive will receive a payment equal to the remuneration that would have been paid to him for any part of a period of 12 months plus the stated 6 month period for which he is not employed by the Company together with the Base Payment.

The Service Agreements expired on 30 June 2006 and have each been extended on a rolling 12 month basis until terminated by the Company or the Executive in accordance with the terms outlined above. All other terms and conditions remain unchanged.

Details of Remuneration for the Year Ended 30 June 2008

The remuneration for each Director and the Executive for the consolidated entity receiving the highest remuneration during the year was as follows:

	Short-term Benefits				Post-employment Benefits	Share-based Payment	Total	Performance related	Total Remuneration Represented by Options
	Salary, Fees & Commissions \$000s	Cash Bonus \$000s	Non-Cash Benefits \$000s	Other \$000s	Super-annuation Contribution \$000s	Options \$000s	\$000s	%	%
2008									
Mr Peter Thomas Reilly	68	–	–	–	6	–	74	–	–
Mr Gerry van Wyngen	73	–	–	–	7	–	80	–	–
Mr Bernard Philip Cassell	250	100	75	15	41	–	481	20.8	–
Mr Denis William Goodrem	286	–	42	–	53	–	381	–	–
Mr David Gordon Bull	222	–	–	1	18	–	241	–	–
Mr Darryl Abotomey	59	–	–	–	5	–	64	–	–
Mr Lachlan Duncan	134	25	14	–	11	–	184	13.6	–
Mr Birol Akdogan*	221	–	31	2	11	–	265	–	–
	1,313	125	162	18	152	–	1,770		

* Mr Birol Akdogan resigned as at 31 March 2008.

	Short-term Benefits				Post-employment Benefits	Share-based Payment	Total	Performance related	Total Remuneration Represented by Options
	Salary, Fees & Commissions \$000s	Cash Bonus \$000s	Non-Cash Benefits \$000s	Other \$000s	Super-annuation Contribution \$000s	Options \$000s	\$000s	%	%
2007									
Mr Gerry van Wyngen	61	–	–	–	5	–	66	–	–
Mr Bernard Philip Cassell	257	100	63	11	42	–	473	21.1	–
Mr Denis William Goodrem	334	–	37	–	57	–	428	–	–
Mr David Gordon Bull	206	30	–	1	17	3	257	11.7	1.3
Mr Peter Thomas Reilly	42	–	–	–	4	–	46	–	–
Mr Jason Ters	19	–	–	–	–	–	19	–	–
Mr Darryl Abotomey	16	–	–	–	1	–	17	–	–
Mr Birol Akdogan	160	–	29	2	14	3	208	–	1.3
	1,095	130	129	14	140	6	1,514		

Directors' Report (continued)

Options issued as part of remuneration for the year ended 30 June 2008

There were no options issued as part of remuneration for the year ended 30 June 2008 to directors or the executive.

Directors Interest in Shares and Options

Directors' relevant interests in shares of CPI Group Limited or options over shares in the company as at 30 June 2008 are detailed below:

Director	Ordinary Shares	Un-listed Options
Mr Peter Thomas Reilly	12,303,143	–
Mr Gerry van Wyngen	–	–
Mr Bernard Philip Cassell	716,686	–
Mr Denis William Goodrem	3,182,839	–
Mr David Gordon Bull	97,000	100,000
Mr Darryl Abotomey	–	–
	16,299,668	100,000

Performance Income as a Proportion of Total Remuneration

Executive directors and executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the economic entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set KPI's, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Directors & Executives Remuneration

The economic entity has a formally constituted remuneration committee that reviews the remuneration levels of all Directors and Executives. Remuneration is determined as part of an annual performance review, having regard to market factors, a performance evaluation process and independent remuneration advice. For Executive Directors and Officers, remuneration packages generally comprise salary, a fully maintained car or allowance and superannuation.

The Board meets annually to review its own performance. The Chairman also holds individual discussions with each Director to discuss their performance. The Executive Directors are responsible for the evaluation of the performance of all other senior executives. These evaluations are based on specific criteria, including the company business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives.

Details of Directors and Executives remunerations and shareholdings are disclosed in Note 30 Key Management Personnel Compensation.

Non-audit Services

The Board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed by the audit committee to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise any applicable code of professional conduct as per Corporations Act 2001 s307C.

The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2008:

	2008 \$	2007 \$
Tax services	20,007	–
Other assurance services	15,610	7,840
	35,617	7,840

Auditors' Independence Declaration

The auditor's independence declaration for the year ended 30 June 2008 has been received and can be found following this directors' report.

Rounding of Amounts

The parent entity is of the kind referred to in Australian Securities and Investment Commission class order 98/100. In accordance with that class order, amounts in this report and the accompanying financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Board of Directors on the 29th day of September 2008 and is signed for and on behalf of the Directors.



P. Reilly
Chairman



B. P. Cassell
Managing Director
Melbourne

Auditor's Independence Declaration

to the Directors of CPI Group Limited



I declare that, in relation to the independent audit for the year ended 30 June 2008, to the best of my knowledge and belief there have been:

- i. no contraventions of the auditors independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



D A KNOWLES
Partner

29 September 2008



PITCHER PARTNERS
Melbourne

Consolidated Income Statement

For the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Sales revenue	3	413,496	275,334	–	–
Cost of sales		(342,635)	(232,004)	–	–
Gross margin		70,861	43,330	–	–
Other income	3	198	245	1,158	–
		198	245	1,158	–
Distribution expenses		(28,150)	(15,861)	–	–
Selling and marketing expenses		(25,915)	(14,251)	–	–
Administration expenses		(13,172)	(10,191)	–	–
Legal judgement	4	5,700	(5,700)	–	–
Impairment of right of first refusal	4	(2,500)	–	–	–
Employee redundancies	4	(364)	(218)	–	–
Impairment of inter-company loan	4	–	–	–	(6,383)
Profit/(Loss) relating to sale of non-current assets	4	11	(13)	–	–
Employee share options	4	–	(8)	–	(8)
Other expenses	4	–	(182)	–	–
Profit/(Loss) before finance costs and income tax		6,669	(2,849)	1,158	(6,391)
Finance costs	4	(4,173)	(1,585)	–	–
Profit/(Loss) before income tax		2,496	(4,434)	1,158	(6,391)
Income tax expense	6	–	(85)	–	–
Net Profit/(Loss) from continuing operations		2,496	(4,519)	1,158	(6,391)
Net Profit from discontinued operations	7	811	303	–	–
Net Profit/(Loss) for the year		3,307	(4,216)	1,158	(6,391)
Earnings/(loss) per share for Profit/(Loss) from continuing operations					
Basic earnings/(loss) per share	31	4.1	(7.2)		
Diluted earnings/(loss) per share	31	4.1	(7.2)		
Earnings per share for Profit from discontinued operations					
Basic earnings per share	31	1.3	0.5		
Diluted earnings per share	31	1.3	0.5		

The accompanying notes form an integral part of this Consolidated Income Statement.

Consolidated Balance Sheet

As at 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
CURRENT ASSETS					
Cash and cash equivalents	9	3,364	9,679	–	277
Receivables	10	115,598	86,447	68,268	38,368
Inventories	11	102,850	49,492	–	–
Other current assets	12	2,207	2,042	–	–
TOTAL CURRENT ASSETS		224,019	147,660	68,268	38,645
NON-CURRENT ASSETS					
Receivables	13	335	378	335	378
Other financial assets	14	3	–	40,108	40,108
Property, plant & equipment	15	5,534	5,078	–	–
Intangibles assets	16	1,618	–	–	–
TOTAL NON-CURRENT ASSETS		7,490	5,456	40,443	40,486
TOTAL ASSETS		231,509	153,116	108,711	79,131
CURRENT LIABILITIES					
Payables	17	108,676	66,456	–	–
Short-term borrowings	18	174	169	–	–
Provisions	19	8,680	6,504	–	1
TOTAL CURRENT LIABILITIES		117,530	73,129	–	1
NON-CURRENT LIABILITIES					
Long-term borrowings	20	62,460	31,369	62,019	30,735
Provisions	21	344	223	–	–
TOTAL NON-CURRENT LIABILITIES		62,804	31,592	62,019	30,735
TOTAL LIABILITIES		180,334	104,721	62,019	30,736
NET ASSETS		51,175	48,395	46,692	48,395
EQUITY					
Contributed equity	22	80,043	82,325	80,043	82,325
Reserves	23	(1,830)	(4,164)	23	23
Accumulated losses	24	(27,038)	(29,766)	(33,374)	(33,953)
TOTAL EQUITY		51,175	48,395	46,692	48,395

The accompanying notes form an integral part of this Consolidated Balance Sheet.

Consolidated Statement of Cash Flows

For the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Cash Flows From Operating Activities					
Receipts from customers		479,994	335,200	–	–
Payments to suppliers and employees		(476,665)	(330,588)	–	–
Interest received		40	–	–	–
Borrowing costs		(4,173)	(1,612)	–	–
Income tax paid		–	(85)	–	–
Net operating cash flows	32(b)	(804)	2,915	–	–
Cash Flows From Investing Activities					
Payments for purchase of plant and equipment	15(b)	(591)	(1,106)	–	–
Proceeds from sale of plant and equipment		114	18	–	–
Payment for acquisition of new businesses, net of cash acquired	36	(41,091)	–	–	–
Proceeds from sale of New Zealand Paper Operations	7	8,489	–	–	–
Payment for Investments		(3)	–	–	–
Direct costs relating to acquisitions		(872)	–	–	–
Net investing cash flows		(33,954)	(1,088)	–	–
Cash Flows From Financing Activities					
Net proceeds from/(Repayment of) borrowings		31,284	(13,704)	2,541	222
Proceeds from/(Repayment of) finance leases		(188)	683	–	–
Payment for share buy back	22	(2,239)	–	(2,239)	–
Dividends paid	8	(579)	–	(579)	–
Net financing cash flows		28,278	(13,021)	(277)	222
Net increase/(decrease) in cash and cash equivalents held		(6,480)	(11,194)	(277)	222
Cash and cash equivalents at the beginning of the year		9,679	21,499	277	55
Effects of exchange rate changes on the balances of cash and cash equivalents held in foreign currencies		165	(626)	–	–
Cash and cash equivalents at the end of the year	32(a)	3,364	9,679	–	277

The accompanying notes form an integral part of this Consolidated Statement of Cash Flows.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
TOTAL EQUITY AT THE BEGINNING OF THE YEAR		48,395	54,778	48,395	54,778
Exchange differences on translation of foreign operations	23(a)	(987)	1,920	–	–
Cash flow hedges	23(b)	3,321	(4,095)	–	–
Employee share options	23(c)	–	8	–	8
Net income recognised directly in equity		2,334	(2,167)	–	8
Profit/(Loss) for the year		3,307	(4,216)	1,158	(6,391)
Total recognised income and expense for the period		5,641	(6,383)	1,158	(6,383)
Dividend Paid	8	(579)	–	(579)	–
Ordinary shares bought back	22	(2,282)	–	(2,282)	–
TOTAL EQUITY AT THE END OF THE YEAR		51,175	48,395	46,692	48,395

The accompanying notes form an integral part of this Consolidated Statement of Changes in Equity.

Notes to and Forming Part of the Financial Statements

For the Year Ended 30 June 2008

Note 1. Summary of Significant Accounting Policies

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers CPI Group Ltd and controlled entities as a consolidated entity. CPI Group Ltd is a company limited by shares, incorporated and domiciled in Australia.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Compliance with IFRS

The financial report of CPI Group Ltd and controlled entities complies with Australian equivalents to International Financial Reporting Standards. Compliance with Australian equivalents of International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRS).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

(b) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which CPI Group Ltd controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 25.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(c) Revenue Recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer. Revenue from the provision of services to customers is recognised upon delivery of the service to the customer.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

- Raw materials and consumables: purchase cost on a first in first out basis;
- Finished goods and work in progress: cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

(f) Property, plant and equipment

Cost and valuation

Plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

The carrying amount of plant and equipment is reviewed for impairment annually by directors for events or changes in circumstances that indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount where applicable, impairment losses are recognised in the income statement.

Depreciation

The depreciable amounts of fixed assets are depreciated on a straight-line or reducing value basis over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	Life	Method
Plant and Equipment	3 years to 15 years	Straight line/ reducing value method
Leasehold improvements	9 years to 15 years	Straight line

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

(g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance Leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Operating Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

(h) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(i) Taxes

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

The parent entity and its Australian domiciled controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses for the tax consolidated group. The tax consolidated group has also entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(j) Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates at the end of the financial period. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Share-based payments

The Group operates an employee share option plan and an employee share scheme. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) during which the employee becomes entitled to exercise the option.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. The fair value of options at grant date is determined using the Black-Scholes option pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

(k) Financial Instruments

Classification

The Group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its instruments at initial recognition.

Financial assets

Non-listed investments, for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Loans and Receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial Liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Hedge Accounting

Certain derivatives are designated as hedging instruments and are further classified as either fair value hedges or cash flow hedges.

At the inception of each hedging transaction the Group documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

To qualify as a cash flow hedge the underlying transactions generating the cash flows must be highly probable.

Changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity in the cash flow hedge reserve. This gain or loss is realised in profit or loss in the same period when the forecast transactions occur, thereby mitigating any exchange fluctuations that would have transpired in the absence of the hedge. Prior to 1 January 2008, the Group entered into cashflow hedges for highly probable forecast transactions. From 1 January 2008 the Group has modified its strategy and now accounts for cashflow hedges against firm commitments only. All open hedge transactions at balance date are disclosed at Note 2(a).

(l) Foreign Currencies

Functional and presentation currency

The financial statements of each Group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

Group Companies

The financial statements of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve as a separate component of equity in the balance sheet.

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

(m) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition.

Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if event or changes in circumstances indicated it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(n) Rounding Amounts

The company is of a kind referred to in ASIC Class Order CO 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(o) Critical Accounting Estimates and Judgements

The Group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

Estimated impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 1(m). Goodwill is allocated to cash generating units (CGU's) according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations require the use of assumptions.

Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(p) New Accounting Standards and Interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The Directors have not yet assessed the impact of these standards or interpretations.

Note 2. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Derivative financial instruments are used by the Group to hedge exposure to exchange rate risk associated with foreign currency transactions and interest rate risk associated with movements in interest rates which impact on the borrowings of the Group. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with. Derivatives are used exclusively for hedging purposes, ie not as trading or other speculative instruments.

The Board of Directors has overall responsibility for identifying and managing operational and financial risks.

(a) Market risk

(i) Forward exchange risk

The Group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the economic entity against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies. From 1 January 2008 only firm commitments of purchases have been hedged.

The Group will be required to pay or purchase the full amount of the foreign currency, when settling the brought forward exchange contracts, should the counterparty not pay the currency it is committed to deliver to the consolidated entity. At 30 June 2008 the full amount at contract rates was \$52.3 million (2007: \$31.8 million).

The accounting policy in regard to forward exchange contracts is detailed in Note 1(k).

The economic entity is primarily exposed to the risk of adverse movements in the Australian dollar relative to certain foreign currencies, but predominantly the Japanese yen and United States dollars and movements in interest rates.

Foreign currency forward exchange contracts are purchased to hedge the Australian dollar value of predominantly Japanese yen and United States dollars payments arising from the purchase of products and equipment for resale. Forward exchange contracts mostly commit the economic entity to purchase foreign currency at an agreed rate of exchange. All foreign currency forward contracts are denominated in a single foreign currency and contracted against Australian dollars. Forward cover is matched to underlying commercial transactions.

The following table summarises by currency the Australian dollar value of forward foreign exchange agreements. Foreign currency amounts are translated at rates current at the reporting date. The “buy” amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies. Contracts to buy and sell foreign currency are entered into from time to time to offset purchase and sale obligations so as to maintain a properly hedged position.

Currency	Exchange Rate 2008	2008 \$000	Exchange Rate 2007	2007 \$000
Buy United States dollars:				
Less than 6 months	0.96	30,645	0.85	5,338
6 months to 1 year	0.96	708	0.85	–
		<u>31,353</u>		<u>5,338</u>
Buy Euro dollars:				
Less than 6 months	0.61	1,153	0.63	129
		<u>1,153</u>		<u>129</u>
Buy Japanese yen:				
Less than 6 months	101.93	11,109	104.7	10,208
6 months to 1 year	101.93	4,454	104.7	9,538
1 year to 2 years	101.93	–	104.7	2,115
		<u>15,563</u>		<u>21,861</u>
Buy Swiss Francs:				
Less than 6 months	0.98	295	1.05	124
Buy British Pound:				
Less than 6 months	0.48	6	–	–
Buy Norwegian Kroner:				
Less than 6 months	4.92	182	–	–
Buy New Zealand dollars:				
Less than 6 months	1.26	7	–	–
Grand Total		48,559		27,452

Foreign Exchange Currency Exposure

There is no significant unhedged foreign currency denominated balances in the Balance Sheet of CPI Group Limited. The Trade Payables balance as at 30 June 2008 of \$108.7 million (2007: \$66.4 million) includes payables of \$1.1 million (2007: \$4.4 million) which is payable in a foreign currency pursuant to foreign currency forward exchange contracts. These have been summarised above.

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 2. Financial Risk Management (continued)

(ii) Interest Rate Risk

The economic entity is exposed to interest rate risk through primary financial assets and liabilities. The following table summarises interest rate risk for the economic entity, together with effective interest rates as at balance date.

2008	Fixed interest rate maturing in						Total \$000	Average Interest Rate
	Floating Interest Rate ⁽ⁱ⁾ \$000	1 Year or less \$000	Over 1 to 5 Years \$000	More than 5 years \$000	Non- interest bearing \$000			
Financial assets								
Cash	3,364	–	–	–	–	3,364	4.40%	
Trade debtors	–	–	–	–	114,000	114,000	–	
Non-trade debtors and loans	–	–	–	–	3,397	3,397	–	
	3,364	–	–	–	117,397	120,761		
Financial Liabilities								
Trade creditors	–	–	–	–	100,633	100,633	–	
Finance Leases	–	174	441	–	–	615	5.81%	
Revolving Credit Facility	–	–	62,019	–	–	62,019	8.39%	
Sundry creditors	–	–	–	–	8,043	8,043	–	
Employee entitlements	–	–	–	–	6,887	6,887	–	
	–	174	62,460	–	115,563	178,197		
2007								
2007	Fixed interest rate maturing in						Total \$000	Average Interest Rate
	Floating Interest Rate ⁽ⁱ⁾ \$000	1 Year or less \$000	Over 1 to 5 Years \$000	More than 5 years \$000	Non- interest bearing \$000			
Financial assets								
Cash	9,679	–	–	–	–	9,679	5.23%	
Trade debtors	–	–	–	–	87,094	87,094	–	
Non-trade debtors and loans	–	–	–	–	1,803	1,803	–	
	9,679	–	–	–	88,897	98,576		
Financial Liabilities								
Trade creditors	–	–	–	–	57,657	57,657	–	
Finance Leases	–	169	634	–	–	803	6.72%	
Securitisation Loan	–	–	30,735	–	–	30,735	7.51%	
Sundry creditors	–	–	–	–	8,799	8,799	–	
Employee entitlements	–	–	–	–	3,958	3,958	–	
	30,735	169	31,369	–	70,414	101,952		

⁽ⁱ⁾ Floating interest rates represent the most recently weighted average rate applicable to the instrument at balance date.

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. If customers are independently rated, these ratings are used. Otherwise if no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are based on internal or external ratings in accordance with limits set by the Board. The compliance with credit limits by customers is regularly monitored by line management. The policy of the Group is to insure its trade receivables where possible. This policy is subject to review by the Board depending on the commercial exigencies.

The maximum exposure to credit risk, excluding the carrying value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the Balance Sheet and Notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of those contracts.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments.

Concentrations of credit risk

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

Credit risk further arises in relation to financial guarantees given to certain parties (see Note 34 for details). Such guarantees are only provided in exceptional circumstances.

(c) Liquidity Risk

Prudent liquidity management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group's funding arrangements consists of a \$99.0 million (2007: \$90.0 million) GE revolving credit facility, with a maturity of May 2010. The facility is secured through a mix of eligible collateral comprising of accounts receivable and inventory to the lesser of the facility limit or the available eligible collateral. The Group's eligible collateral exceeds the facility limit at 30 June 2008. The facility is also subject to usual provisions such as lending covenants and various financial undertakings. The facility is a variable rate facility. The average variable interest rate for the year was 8.39% (2007: 7.51%).

The Group and the parent entity have access to undrawn borrowing facilities at balance date as disclosed in Note 32(c).

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 2. Financial Risk Management (continued)

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual reporting date. The amounts disclosed are the undiscounted cashflows.

Consolidated At 30 June 2008	Less than 6 months \$000	6 – 12 months \$000	Between 1 and 2 Years \$000	Between 2 and 5 years \$000	Over 5 years \$000	Total contractual cash flows \$000	Carrying amount \$000
Non-derivatives							
Non-interest bearing	107,202	1,474	–	–	–	108,676	108,676
Variable rate	549	–	61,470	–	–	62,019	62,019
Fixed rate	105	102	184	292	–	683	615

Consolidated At 30 June 2007	Less than 6 months \$000	6 – 12 months \$000	Between 1 and 2 Years \$000	Between 2 and 5 years \$000	Over 5 years \$000	Total contractual cash flows \$000	Carrying amount \$000
Non-derivatives							
Non-interest bearing	64,473	1,394	589	–	–	66,456	66,456
Variable rate	228	–	30,507	–	–	30,735	30,735
Fixed rate	113	112	251	436	–	912	803

Parent At 30 June 2008	Less than 6 months \$000	6 – 12 months \$000	Between 1 and 2 Years \$000	Between 2 and 5 years \$000	Over 5 years \$000	Total contractual cash flows \$000	Carrying amount \$000
Non-derivatives							
Variable rate	549	–	61,470	–	–	62,019	62,019

Parent At 30 June 2007	Less than 6 months \$000	6 – 12 months \$000	Between 1 and 2 Years \$000	Between 2 and 5 years \$000	Over 5 years \$000	Total contractual cash flows \$000	Carrying amount \$000
Non-derivatives							
Variable rate	228	–	30,507	–	–	30,735	30,735

(d) Fair Value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial assets and financial liabilities approximates their carrying value as disclosed in the Balance Sheet and Notes to the financial statements.

The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 3. Revenue					
(a) Revenue from continuing operations:					
Sales revenues:					
Product Sales		413,496	275,334	–	–
Other revenues:					
– Foreign Exchange gain		30	–	–	–
– Dividends		–	–	1,158	–
– Other		168	245	–	–
Total other revenue		198	245	1,158	–
Revenue from discontinued operations:					
Divestment of Reel Paper Ltd paper distribution business		3,131	13,812	–	–
Divestment of Consolidated Paper Industries (New Zealand) Limited paper distribution business		13,088	28,160	–	–
		16,219	41,972	–	–

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 4. Profit from Continuing Operations					
(b) Profit/(Loss) from continuing operations before income tax includes the following specific expenses:					
Depreciation:					
– Leasehold Improvements	15(b)	137	90	–	–
– Plant and Equipment	15(b)	1,239	1,175	–	–
Total depreciation		1,376	1,265	–	–
Foreign exchange loss		–	7	–	–
Finance costs:					
Interest paid or payable to:					
– Other persons		4,173	1,585	–	–
Other expense items:					
Employee share options		–	8	–	8
Net (Profit)/Loss on sale of property, plant and equipment		(11)	13	–	–
Bad debts written off against provision		705	172	–	–
Operating leases rentals		11,344	7,367	–	–
Employee redundancies		364	218	–	–

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 4. Profit from Continuing Operations (continued)					
Transfers to/(from) provisions for:					
Employee benefits		77	301	-	-
Doubtful debts		(55)	(208)	-	-
Stock obsolescence		(1,446)	(943)	-	-
Explanation of circumstances leading to a reversal of write downs in inventories.					
In prior years, the group had provisioned for inventories relating to activities that were being closed or where technological obsolescence issues existed. The Group has worked hard to maximise the value realised in disposing of these items, which has led to the reversal of those write downs.					
Specific disclosure items above:					
Minimum operating lease payments		11,344	7,367	-	-
(c) Significant Revenues and Expenses					
The following significant revenue and (expense) items are relevant in explaining the income statement:					
Impairment of inter-company loan		-	-	-	(6,383)
Legal judgement	(i)	5,700	(5,700)	-	-
Impairment of right of first refusal	(ii)	(2,500)	-	-	-

- (i) The Group successfully appealed against a legal judgement handed down against it in relation to the legal dispute with a former supplier, Stora Enso Group. This resulted in the recovery of \$5.7 million paid as part of the adverse judgement in the prior year.
- (ii) On 30 November 2007, the Group completed the acquisition of Red Paper Group, whose operations comprised Edwards Dunlop Paper and Raleigh Paper. As part of this acquisition, the Group also acquired a Right of First Refusal over Edwards Dunlop (NZ) Limited, incurring \$2.5 million. The Right of First Refusal has been fully impaired at year end.

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 5. Auditors' Remuneration					
Remuneration of the auditor of the parent entity for:					
- auditing or reviewing the financial report		435	257	-	-
- taxation services		20	-	-	-
- other assurance services		16	8	-	-
		471	265	-	-

The audit fees of the parent entity are paid by its controlled entities.

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 6. Income Tax Expense					
(a) The components of tax expense:					
Current tax		–	85	–	–
Deferred tax		–	–	–	–
Total Income tax expense		–	85	–	–
(b) The prima facie tax, using tax rates applicable in the country of operation, on profit differs from the income tax provided in the financial statements as follows:					
Profit/(loss) before tax from continuing operations		2,496	(4,434)	1,158	(6,391)
Profit/(loss) before tax from discontinued operations		811	303	–	–
Total profit before income tax		3,307	(4,131)	1,158	(6,391)
At the statutory income tax rate of 30% (2007: 30%)		992	(1,239)	347	(1,918)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income					
Unrealised foreign currency gain/(loss)		(183)	217	–	–
Impairment losses not recognised		750	–	–	–
Share based payment		–	3	–	3
Other permanent differences		100	303	–	–
Dividend rebate		–	–	(347)	–
Impairment of intercompany loan		–	–	–	1,915
Unrecognised tax losses		(990)	1,421	–	–
Previously unrecognised temporary differences now recouped to reduce current tax expense		(669)	(620)	–	–
Income tax expense		–	85	–	–
(c) Deferred tax assets not taken to account					
Deferred tax assets arising from tax losses and other timing differences have not been recognised as an asset because recovery is not probable at this time					
– Tax losses		2,574	3,659	2,574	3,659
– Timing differences		5,103	4,838	–	–
		7,677	8,498	2,574	3,659

The amount of deferred tax assets which may be realised in the future is dependent on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 7. Discontinued Operations

Divestment of New Zealand Paper distribution businesses

The group divested its paper distribution business to UPM Raflatac NZ Pty Ltd and Edwards Dunlop (NZ) Limited in two separate transactions that concluded on 31 July 2007 and 30 November 2007 respectively.

As both businesses share facilities and corporate overheads, and are intertwined in their business nature, it is therefore not practical to report separately the results of the discontinued operations. Also, as the divestments occurred at different times, it is found not to be practical to report separately the net cash flows. This has been incorporated into the statement of cash flows.

The financial information relating to the discontinued operations to the date of sale, which is included in the profit/(loss) from discontinued operations per the income statement is as follows:

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
(i) Financial performance:					
Revenue		15,640	42,060	-	-
Expenses		(15,408)	(41,669)	-	-
Other income		129	(88)	-	-
Profit before income tax		361	303	-	-
Income tax expense		-	-	-	-
Profit after income tax of discontinued operations		361	303	-	-
Gain on sale of the division before income tax		450	-	-	-
Income tax expense		-	-	-	-
Gain on sale of the division after income tax		450	-	-	-
Profit from discontinued operations		811	303	-	-
(ii) Carrying amounts of assets and liabilities disposed of					
Assets					
Receivables		8,440	9,520	-	-
Inventories		7,673	7,513	-	-
Property, plant and equipment		178	252	-	-
Total assets		16,291	17,285	-	-
Liabilities					
Payables		(8,164)	(5,928)	-	-
Provisions		(88)	(57)	-	-
Total liabilities		(8,252)	(5,985)	-	-
Net assets attributable to discontinued operations		8,039	11,300	-	-
Inflow of cash, net of cash disposed of:					
Consideration					
Cash received		8,489	-	-	-

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 8. Dividends Paid and Proposed					
Dividends paid or declared by the parent entity are:					
Interim dividend (fully franked) \$0.01 (2007:Nil) per share		579	–	579	–
Dividends paid or payable		579	–	579	–
Proposed final dividend					
In addition to the above dividend, since year end the Directors have recommended the payment of a final dividend for the year ended 30 June 2008 of \$0.01 per share. The aggregate amount of the proposed dividend to be paid but not recognised as a liability at year end is		579	–	579	–
The Dividend Reinvestment Plan and Share Investment Plan have been suspended until further notice.					
(a) Franking credit balance					
Balance of franking account at year–end adjusted for franking credits arising from payment of provision for tax and after deducting credits to be used for the payment of dividends recognised as a liability at the reporting date:		13,980	14,228	13,980	14,228
Impact on the franking account of dividends recommended by the Directors since year end but not recognised as a liability at year end.		(248)	–	(248)	–
Note 9. Cash and Cash Equivalents					
Cash at bank		1,685	4,766	–	277
Cash on hand and in transit		1,679	4,913	–	–
	32(a)	3,364	9,679	–	277

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 10. Receivables (Current)					
Trade receivables	10(a)	114,000	87,094	-	-
	10(c)				
Provision for impairment of trade receivables	10(b)	(1,799)	(2,450)	-	-
		112,201	84,644	-	-
Other receivables	10(d)	3,136	1,585	-	-
Tax receivable		261	218	-	-
Amounts receivable from controlled entities	28(d)	-	-	116,512	86,612
Provision for impairment		-	-	(48,244)	(48,244)
		115,598	86,447	68,268	38,368
(a) In previous years, the economic entity maintained a debtor securitisation arrangement by which it transferred an equity in certain trade debtors to a third party in exchange for an immediate discounted cash payment while retaining an exposure to credit losses and continuing obligation to service its accounts with these customers. This program was closed in May 2007. The Group's debtor securitisation funding arrangements are now replaced by a GE revolving credit facility. The maximum amount allowed to be drawn on this facility is \$99.0 million subject to a sufficient level of asset backing, which is a combination of eligible collateral comprising of trade receivables and inventory.					
Carrying amount of trade receivables pledged as security for financial liabilities		81,173	44,257	-	-
(b) Impaired trade receivables					
As at 30 June 2008 current trade receivables of the Group with a nominal value of \$2,368,000 (2007: \$4,295,000) were impaired. It was assessed that a portion of the receivables is expected to be recovered. There were no impaired trade receivables for the parent entity in 2008 or 2007.					
The ageing of these receivable is as follows:					
1 to 3 months		263	2,426	-	-
4 to 6 months		1,185	635	-	-
Over 6 months		920	1,234	-	-
		2,368	4,295	-	-
Movements in the provision for impairment of receivables are as follows:					
At 1 July		2,450	2,842	-	-
Provision for impairment recognised during the year		1,198	1,272	-	-
Provision for impairment at acquisition		110	-	-	-
Receivable written off during the year as uncollectible		(705)	(172)	-	-
Unused amount reversed		(1,253)	(1,480)	-	-
Exchange Variance		(1)	(12)	-	-
		1,799	2,450	-	-

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 10. Receivables (Current) (continued)					
(c) Past due but not impaired					
As of 30 June 2008, trade receivables of \$24,449,000 (2007: \$25,005,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing of these receivables is as follows:					
Up to 3 months		18,327	24,484	–	–
3 to 6 months		4,092	383	–	–
Over 6 months		2,030	138	–	–
		24,449	25,005	–	–
(d) Other receivables					
These amounts generally arise from transactions outside the usual operating activities of the Group.					
(e) Foreign exchange and interest rate risk					
Information about the Group's and parent entity's exposure to foreign current risk and interest rate risk in relation to trade and other receivables is provided in Note 2.					
(f) Fair value and credit risk					
Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.					
The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The fair value of securities held for certain trade receivables is insignificant as is the fair value of any collateral sold or repledged. Refer to Note 2 for more information on the risk management policy of the Group.					
Note 11. Inventories (Current)					
Finished goods					
– at cost		94,504	38,042	–	–
– at net realisable value		7,156	11,277	–	–
Shipments in transit, at cost		1,190	173	–	–
		102,850	49,492	–	–
Movements in the provision for impairment of inventory are as follows:					
At 1 July		7,760	8,581	–	–
Inventory write-downs to net realisable value recognised as an expense		3,074	3,136	–	–
Reversals of write-downs previously recognised		(4,520)	(4,079)	–	–
Provision for impairment at acquisition		1,395	–	–	–
Exchange Variance		(169)	122	–	–
		7,540	7,760	–	–
Carrying amount of inventories pledged as security for financial liabilities		29,609	15,254	–	–

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 12. Other Assets (Current)					
Prepayments		2,207	2,042	–	–
Note 13. Receivables (Non-Current)					
Loans to employees pursuant to the Employee Share Purchase Plan	13(a)	335	378	335	378
(a) Loans to employees to acquire shares in the parent entity are interest free. There are no repayment obligations on the loan except if the employee leaves the employment of the economic entity. The shares, which are the subject of these loans, are held as security until the loan is fully repaid. If the loan is not repaid the shares are re-purchased by the parent entity at the issue value.					
(b) Due to the nature of these receivables, their carrying amount approximates their fair value.					
Note 14. Other Financial Assets (Non-Current)					
Shares in controlled entities – at cost	25	–	–	40,108	40,108
Shares in unlisted entity – at cost		3	–	–	–
		3	–	40,108	40,108
Note 15. Property, Plant and Equipment					
(a) Property, plant and equipment					
Plant and equipment at cost		23,597	23,195	–	–
Accumulated depreciation		(18,783)	(18,613)	–	–
		4,814	4,582	–	–
Leasehold improvements at cost		1,043	744	–	–
Accumulated depreciation		(323)	(248)	–	–
		720	496	–	–
Net property, plant and equipment		5,534	5,078	–	–

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 15. Property, Plant and Equipment (continued)					
(b) Movements in carrying amounts:					
Plant and equipment:					
Cost					
Opening balance		23,195	24,020	-	-
Additions		378	1,092	-	-
Disposals		(1,328)	(2,042)	-	-
Additions through acquisition of operations		1,443	-	-	-
Exchange differences		(91)	125	-	-
Closing Balance		23,597	23,195	-	-
Accumulated Depreciation					
Opening balance		18,613	19,307	-	-
Depreciation for the year	4(b)	1,253	1,224	-	-
Disposals		(1,023)	(2,009)	-	-
Exchange differences		(60)	91	-	-
Closing Balance		18,783	18,613	-	-
Net book value		4,814	4,582	-	-
Leasehold Improvements:					
Cost					
Opening balance		744	715	-	-
Additions		213	14	-	-
Disposals		(58)	-	-	-
Additions through acquisition of operations		161	-	-	-
Exchange differences		(17)	15	-	-
Closing Balance		1,043	744	-	-
Accumulated Depreciation					
Opening balance		248	148	-	-
Depreciation for the year	4(b)	137	90	-	-
Disposals		(49)	-	-	-
Exchange differences		(13)	10	-	-
Closing Balance		323	248	-	-
Net book value		720	496	-	-
Total property, plant and equipment, at cost		24,640	23,939	-	-
Total property, plant and equipment, net book value		5,534	5,078	-	-
(c) Leased assets					
Plant and equipment includes the following amounts where the Group is a lessee under a finance lease.					
Leased equipment					
Cost		849	911	-	-
Accumulated amortisation		(177)	(70)	-	-
Net book value		672	841	-	-

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 16. Intangibles					
Goodwill at cost		1,618	–	–	–
Right of first refusal at cost		2,500	–	–	–
Accumulated impairment loss		(2,500)	–	–	–
Net carrying amount		1,618	–	–	–
Opening net book amount		–	–	–	–
Additions during the year		4,118	–	–	–
Impairment charge		(2,500)	–	–	–
Closing net book value	36	1,618	–	–	–
Note 17. Payables (Current)					
Unsecured					
Trade creditors		100,633	57,657	–	–
Sundry creditors and accruals		8,043	8,799	–	–
		108,676	66,456	–	–
Note 18. Short-Term Borrowings (Current)					
Secured					
Finance Leases	26(b)	174	169	–	–
		174	169	–	–
Note 19. Provisions (Current)					
Employee benefits	21(a)	6,543	3,735	–	–
Other		2,137	2,769	–	1
		8,680	6,504	–	1

Movements in provisions other than employee benefits:

	Installation/ Warranty/ Refurbishment \$000s	Other \$000s	Total \$000s
Consolidated:			
Opening balance	2,093	676	2,769
Additional provision	5,598	2,090	7,688
Amounts used	(6,165)	(2,097)	(8,262)
Exchange variance	(52)	(6)	(58)
Closing balance	1,474	663	2,137

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 20. Long-Term Borrowings (Non-Current)					
Secured					
Finance Leases	26(b)	441	634	–	–
Revolving Credit Facility (a)	32(c)	62,019	30,735	62,019	30,735
		62,460	31,369	62,019	30,735

(a) The Group's funding arrangements consists of a \$99.0 million (2007: \$90.0 million) GE revolving credit facility, with a maturity of May 2010. The facility is secured through a mix of eligible collateral comprising of accounts receivable and inventory to the lesser of the facility limit or the available eligible collateral. The Group's eligible collateral exceeds the facility limit at 30 June 2008. The facility is also subject to usual provisions such as lending covenants and various financial undertakings. The facility is a variable rate facility. The average variable interest rate for the year was 8.39% (2007: 7.51%).

Note 21. Provisions (Non-Current)

Employee benefits	21(a)	344	223	–	–
(a) Aggregate Employee Entitlements		6,887	3,958	–	–
(b) Number of employees at year end		543	340	–	–

Note 22. Contributed Equity

Share Capital

Ordinary shares		80,043	82,325	80,043	82,325
Total contributed equity		80,043	82,325	80,043	82,325

Movements in contributed equity for the year

	Number of Ordinary Shares	
	2008 000s	2007 000s
Opening number of shares	62,688	62,688
Share buy-back – Stora Enso Group (i)	(4,784)	–
Share buy-back – Employee Shares (ii)	(22)	–
Closing number of shares	57,882	62,688

Movements in contributed equity for the year

	Consolidated		Parent	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Opening balance	82,325	82,325	82,325	82,325
Share buy-back – Stora Enso Group (i)	(2,239)	–	(2,239)	–
Share buy-back – Employee Shares (ii)	(43)	–	(43)	–
Closing balance	80,043	82,325	80,043	82,325

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 22. Contributed Equity (continued)

Share buy-back

(i) Stora Enso Group

On 20 December 2007 the parent entity repurchased and cancelled all the shares owned by Stora Enso Group. The shares were acquired at a price of 46.8 cents per share. The total reduction in paid up capital was \$2,239,000.

(ii) Employee Shares

On 18 March 2008 ordinary shares were bought back and cancelled pursuant to an off market buy back and in accordance with the Employee Share Purchase Plan (ESPP) rules. The ESPP shares were bought back at the original issue price.

There is no current on-market buy-back.

Share Options

The company offered employee participation in short-term and long-term share option incentive schemes as part of the remuneration packages for the employees of the company. The terms and conditions are as follows:

	Exercise Date	Options	Exercise Price
1st Exercise Date	30/06/2005	75,000	0.57
2nd Exercise Date	30/06/2006	75,000	0.57
3rd Exercise Date	30/06/2007	150,000	0.57

The Options were granted on 31 August 2004 and will expire on 30 June 2009 and subject to the recipient remaining an employee within the economic entity. As at 30 June 2008 300,000 options have been granted and at reporting date 200,000 options remain on offer under this scheme, following the resignation of an employee. The market price of the ordinary shares as quoted by the Australian Stock Exchange closed at \$0.30 on 30 June 2008.

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 23. Reserves					
Foreign Currency Translation reserve (a)		(807)	180	-	-
Cash Flow Hedge reserve (b)		(1,046)	(4,367)	-	-
Employee Share Option reserve (c)		23	23	23	23
		(1,830)	(4,164)	23	23

Movements During the Year

(a) Foreign Currency Translation reserve

Balance at beginning of year	180	(1,740)	-	-
Exchange fluctuations arising on net assets of foreign controlled entities	(987)	1,920	-	-
Balance at end of year	(807)	180	-	-

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 23. Reserves (continued)					
(b) Cash Flow Hedge reserve					
Balance at beginning of year		(4,367)	(272)	–	–
Revaluation of designated hedges		3,321	(4,095)	–	–
Balance at end of year		(1,046)	(4,367)	–	–
The hedge reserve records revaluations of items designated as cash flow hedges.					
(c) Employee Share Option reserve					
Balance at beginning of year		23	15	23	15
Share options expense		–	8	–	8
Balance at end of year		23	23	23	23

The option reserve records items recognised as expenses and credited directly to equity on granting of employee share options.

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 24. Accumulated Losses And Dividends					
Accumulated Losses					
Accumulated losses at the beginning of the financial year		(29,766)	(25,550)	(33,953)	(27,562)
Net Profit/(loss) for the year		3,307	(4,216)	1,158	(6,391)
Dividends		(579)	–	(579)	–
Accumulated losses at the end of the financial year		(27,038)	(29,766)	(33,374)	(33,953)

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 25. Controlled Entities

The consolidated financial statements at 30 June 2008 include the following controlled entities. The financial years of all controlled entities are the same as that of the parent entity.

Name of Controlled Entity	Incorporated	% of Shares Held	
		2008	2007
Parent Entity			
CPI Group Limited	Australia		
Controlled Entity of CPI Group Limited			
Consolidated Paper Industries (Australasia) Pty Ltd	Australia	100	100
Consolidated Paper Industries Pty Ltd	Australia	100	100
Controlled Entities of Consolidated Paper Industries (Australasia) Pty Ltd			
Consolidated Paper Industries (SA) Pty Ltd	Australia	100	100
Consolidated Paper Industries (WA) Pty Ltd	Australia	100	100
Consolidated Paper Industries (Qld) Pty Ltd	Australia	100	100
Consolidated Paper Industries (New Zealand) Limited	New Zealand	100	100
CPI Graphics Holding Pty Ltd	Australia	100	100
CPI Trading Pty Ltd*	Australia	100	100
Controlled Entities of CPI Graphics Holding Pty Ltd			
CPI Graphics Ltd	Australia	100	100
Controlled Entities of Consolidated Paper Industries (New Zealand) Limited			
Reel Papers Limited	New Zealand	100	100
Controlled Entities of CPI Graphics Ltd			
CPI Graphics New Zealand Limited	New Zealand	100	100

* Denotes non-operating entity.

Note 25. Controlled Entities (continued)

All entities incorporated in Australia have entered into a deed of cross guarantee dated 24 June 1999 with CPI Group Limited which provides that all parties to the deed will guarantee to each creditor, payment in full of any debt of each entity participating in the deed on the winding-up of that entity. In addition, as a result of the Class Order issued by the Australian Securities and Investments Commission, these entities are relieved from the requirement to prepare financial statements.

The consolidated balance sheet and income statement of all entities included in the class order “closed” group are set out below:

(i) CPI Group Limited closed group balance sheet as at 30 June 2008

Financial information for Australian class order closed group:

	2008 \$000s	2007 \$000s
CURRENT ASSETS		
Cash & cash equivalents	2,216	3,157
Receivables	114,874	73,736
Inventories	101,878	40,828
Other current assets	1,504	2,121
TOTAL CURRENT ASSETS	220,472	119,842
NON-CURRENT ASSETS		
Receivables	1,696	9,378
Other financial assets	5,212	5,209
Property, plant & equipment	5,486	4,741
Intangibles	1,618	–
TOTAL NON-CURRENT ASSETS	14,012	19,328
TOTAL ASSETS	234,484	139,170
CURRENT LIABILITIES		
Payables	113,254	55,079
Short-term borrowings	174	169
Provisions	8,431	5,635
TOTAL CURRENT LIABILITIES	121,859	60,883
NON-CURRENT LIABILITIES		
Finance Leases	441	634
Long-term borrowings	62,019	30,735
Provisions	344	223
TOTAL NON-CURRENT LIABILITIES	62,804	31,592
TOTAL LIABILITIES	184,663	92,475
NET ASSETS	49,821	46,695
EQUITY		
Contributed equity	80,043	82,325
Reserves	(1,023)	(4,344)
Accumulated losses	(29,199)	(31,286)
TOTAL EQUITY	49,821	46,695

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 25. Controlled Entities (continued)

(ii) CPI Group Limited closed group consolidated income statement for the year ended 30 June 2008.

	2008 \$000s	2007 \$000s
Profit/(loss) before income tax	2,666	(5,005)
Income tax expense	–	–
Profit/(loss) for the year	2,666	(5,005)

(iii) CPI Group Limited closed group consolidated statement of changes in equity as at 30 June 2008.

Total equity at the beginning of the year	46,695	55,787
Employee share options	–	8
Revaluation of cash flow hedges	3,321	(4,095)
Net income recognised directly in equity	3,321	(4,087)
Profit/(loss) for the year	2,666	(5,005)
Total recognised income and expense for the period	5,987	(9,092)
Dividend paid	(579)	–
Ordinary shares bought back	(2,282)	–
Total equity at the end of the year	49,821	46,695

(iv) Accumulated Losses

Accumulated losses at the beginning of the financial year	(31,286)	(26,281)
Profit/(loss) for the year	2,666	(5,005)
Dividend paid	(579)	–
Accumulated losses at the end of the financial year	(29,199)	(31,286)

	Note	Consolidated		Parent	
		2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 26. Lease Commitments					
(a) Operating Lease Commitments (non-cancellable)					
Minimum lease payments					
Payable					
– not later than one year		12,252	7,593	–	–
– later than 1 year but not later than 5 years		31,609	21,240	–	–
– later than 5 years		11,673	15,741	–	–
Total operating lease commitments		55,534	44,574	–	–
<p>Operating leases are entered into as a means of acquiring access to storage facilities, certain items of plant and equipment, as well as motor vehicles. No purchase options exist in relation to operating leases and operating leases do not contain restrictions on financing or other leasing activities. Property leases are non-cancellable leases with varying fixed terms and are payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum lease payments are adjusted with reference to either the consumer price index or other market based index as appropriate. An option exists to renew the lease at the end of the current term. The leases allow for subletting.</p>					
(b) Finance Lease Commitments					
Payable					
– not later than one year		207	224	–	–
– later than 1 year but not later than 5 years		476	688	–	–
– less future finance lease charges		(68)	(109)	–	–
Total finance lease liability		615	803	–	–
Represented by:					
Current Liability	18	174	169	–	–
Non-Current Liability	20	441	634	–	–
		615	803	–	–

Finance leases are entered into as a means of acquiring certain items of plant and equipment and motor vehicles. Under the terms of the leases, the Group has the option to acquire the leased asset on expiry of the leases.

Note 27. Events Subsequent to Balance Date

The directors are unaware of any events subsequent to balance date which could materially impact upon the financial position of the economic entity or any of its associates.

On 21 August 2008, a final dividend, fully franked, of \$0.01 per share was declared.

Since year end, a new share acquisition plan was also introduced where all full time and permanent employees with at least 12 months service with the Company are eligible to participate. At the Board's discretion, shares may be acquired by purchasing on-market or via a new issue of shares. Where shares are purchased on-market, the purchase price will be the actual shares price of the shares purchased on the allocation date. For a new issue of shares, the purchase price will be based on the 5 day volume weighted average price of shares as at the day they are allocated to the Participant. Share acquired will be subject to an initial no-transfer restriction period of 2 years.

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 28. Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless stated otherwise.

Transactions with related parties:

	Consolidated		Parent	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
(a) Stora Enso Group				
The Stora Enso Group is a Swedish/German based paper mill and had been a substantial shareholder in the parent entity since 1988. The Stora Enso Group was a supplier to the economic entity providing a range of paper products on normal terms and conditions. The following aggregate annual purchases were made from the Stora Enso Group.	–	2,199	–	–

During the year the Group successfully appealed against a legal judgement handed down against it in relation to the legal dispute with a former supplier, Stora Enso Group. This resulted in the recovery of \$5.7 million paid as part of the adverse judgement in the prior year.

On 20 December 2007 the parent entity repurchased and cancelled all the shares owned by Stora Enso Group. The shares were acquired at a price of 46.8 cents per share. The total reduction in paid up capital was \$2,239,000.

(b) Directors and Executive Loans

	Opening Balance	Interest paid/ payable	Interest chargeable at arms-length	Interest forgiven	Closing Balance
Mr Bernard Philip Cassell	187,500	–	14,531	(14,531)	187,500
Mr David Gordon Bull	14,000	–	1,085	(1,085)	14,000

Interest rate applied to calculate interest chargeable at arms length is 7.75%. The above loans were issued pursuant to the rules of the Employee Share Purchase Plan, which allows for interest free loans to be provided to selected employees to acquire shares issued under the Plan. No interest is currently payable on these loans, and there is no obligation for repayment of the loans, except if the director or executive leaves the employment of the economic entity. If the loans are not repaid the shares are re-purchased by the parent entity at the issue value. The shares, which are the subject of these loans, are held as security until the loan is fully repaid. To the date of these financial statements, no repayments have been made.

(c) Transactions with related parties in the Wholly Owned Group

During the year, controlled entities traded with one another. Sales and dividend revenue of this nature has been eliminated.

(d) Loans to/from related parties

	Consolidated		Parent	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Loans to subsidiaries				
Beginning of the year	–	–	107,340	76,605
Loans advanced	–	–	31,284	30,735
Loan repayments received	–	–	(22,112)	(20,728)
End of year	–	–	116,512	86,612
Provision for impairment	–	–	48,244	48,244

Note 29. Segment Reporting

Geographical Segments	Australia		New Zealand		Eliminations		Consolidated	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Continuing Operations								
External sales	408,217	260,411	5,279	14,923	-	-	413,496	275,334
Inter-segment sales	866	824	665	1,022	(1,531)	(1,846)	-	-
Other revenue	130	157	68	88	-	-	198	245
Total sales revenue	409,213	261,392	6,012	16,033	(1,531)	(1,846)	413,694	275,579
Total segment revenue	409,213	261,392	6,012	16,033	(1,531)	(1,846)	413,694	275,579
Segment result	2,666	(5,005)	(170)	571	-	-	2,496	(4,434)
Income tax expense							-	(85)
Profit for the year from continuing operations							2,496	(4,519)
Segment assets	229,275	133,961	3,008	11,048	(774)	(9,718)	231,509	135,831
Segment liabilities	180,226	92,475	1,469	15,261	(1,361)	(9,000)	180,334	98,736
Acquisitions of non-current assets	543	1,085	48	-	-	-	591	1,085
Depreciation & amortisation	1,331	1,202	45	63	-	-	1,376	1,265
Non-cash expenses and movement in provisions other than depreciation & amortisation	(614)	(1,259)	(887)	108	-	-	(1,501)	(1,151)
Discontinued Operations								
External sales	-	-	15,640	42,060	-	-	15,640	42,060
Other revenue	-	-	579	(88)	-	-	579	(88)
Total sales revenue	-	-	16,219	41,972	-	-	16,219	41,972
Segment result	-	-	811	303	-	-	811	303
Income tax expense							-	-
Profit for the year from discontinued operations							811	303

The economic entity's sole activity was as supplier to the commercial offset printing industry, including papers, inks and capital equipment.

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 30. Key Management Personnel Compensation

(a) Shareholdings

Number of Ordinary Shares held by Key Management Personnel

	Opening Balance	Received as Compensation	Options Exercised	Purchased/ (Sold/ resigned)	Closing Balance
Mr Gerry van Wyngen	–	–	–	–	–
Mr Bernard Philip Cassell	716,686	–	–	–	716,686
Mr Denis William Goodrem	3,184,138	–	–	(1,299)	3,182,839
Mr Peter Thomas Reilly	12,303,143	–	–	–	12,303,143
Mr David Bull	5,000	–	–	92,000	97,000
Mr Jason Ters	–	–	–	–	–
Mr Darryl Abotomey	–	–	–	–	–
Mr Lachlan Duncan	–	–	–	–	–
Total	16,208,967	–	–	90,701	16,299,668

All shares sold and purchased during the year were on the same terms and conditions available to other shareholders.

	Consolidated	
	2008 \$000s	2007 \$000s
Note 31. Earnings Per Share		
Continuing operations:		
Basic earnings/(loss) per share (cents per share)	4.1	(7.2)
Diluted earnings/(loss) per share (cents per share)	4.1	(7.2)
Discontinued operations:		
Basic earnings per share (cents per share)	1.3	0.5
Diluted earnings per share (cents per share)	1.3	0.5
Reconciliation of earnings used in calculating earnings per share		
Profit/(loss) from continuing operations	2,496	(4,519)
Profit from discontinued operations	811	303
Profit/(loss) used in calculating earnings per share	3,307	(4,216)
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	60,151,148	62,688,036

Due to their immaterial impact, the unexpired 200,000 share options referred to in Note 22 have not been reflected in the earnings per share calculations above.

	Consolidated		Parent	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Note 32. Notes to the Statement of Cash Flows				
(a) Reconciliation of Cash				
Cash and Cash Equivalents at the end of the year is shown in the Consolidated Balance Sheet as:				
Cash at bank	1,685	4,766	–	277
Cash on hand and in transit	1,679	4,913	–	–
	3,364	9,679	–	277
(b) Reconciliation of Net Profit after Income Tax to Net Cash Flows from operating activities.				
Profit/(loss) for the year	3,307	(4,216)	1,158	(6,391)
Non-cash items				
Depreciation and amortisation	1,390	1,314	–	–
Doubtful debts provision	(651)	(392)	–	–
Obsolete stock provision	(220)	(822)	–	–
Impairment of Right of first refusal	2,500	–	–	–
Loss on sale of plant and equipment	40	18	–	–
Profit on sale of plant and equipment and Investments	(468)	(4)	–	–
Provision for write down of inter-company loans	–	–	–	6,391
Dividend received from controlled entity	–	–	(1,158)	–
Other	–	(2)	–	–
Changes in assets and liabilities:				
(Increase)/decrease in:				
Trade receivables	9,090	(22,982)	–	–
Other receivables	(1,000)	7,365	–	–
Other assets	(165)	779	–	–
Inventories	(11,811)	3,499	–	–
Increase/(decrease) in:				
Trade creditors	(2,663)	17,922	–	–
Sundry creditors and provisions	(2,105)	1,681	–	–
Tax provision	(43)	–	–	–
Employee entitlements provision	(209)	328	–	–
Cash flow hedge reserve	3,321	(4,095)	–	–
Translation variance	(1,117)	2,522	–	–
Net cash flow from operating activities	(804)	2,915	–	–

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 32. Notes to the Statement of Cash Flows (continued)

(c) Financing Facilities

Bank overdraft, guarantee, foreign exchange, trade finance and transactional facilities are arranged with a number of Australian & New Zealand banks with the general terms and conditions being set and agreed.

The Group's funding arrangements consists of a \$99.0 million (2007: \$90.0 million) GE revolving credit facility, with a maturity of May 2010. The facility is secured through a mix of eligible collateral comprising of accounts receivable and inventory to the lesser of the facility limit or the available eligible collateral. The Group's eligible collateral exceeds the facility limit at 30 June 2008. The facility is also subject to usual provisions such as lending covenants and various financial undertakings. The facility is a variable rate facility. The average variable interest rate for the year was 8.39% (2007: 7.51%).

As at 30 June 2008 the availability under this facility was \$92.9 million (2007: \$53.7 million) of which \$62.0 million (2007: \$30.7 million) was drawn.

The economic entity has available letter of credit facilities of \$15.0 million (2007: \$16.0 million) of which \$4.9 million were undrawn as at 30 June 2008 (2007: \$2.2 million). Letter of credit facility of \$1.0 million with NAB expired in April 2008. These facilities are subject to certain lending covenants relating to the balance sheet and financial performance of the economic entity.

(d) Controlled Entities/Businesses Acquired

No controlling interests in or assets of other businesses were acquired during the year except as disclosed in Note 36.

(e) Non Cash Transactions

The Cash Flow Statement includes assets totalling \$Nil (2007 \$849,305) that were acquired under finance lease and which are disclosed both as investing and financing activities under the direct method.

Note 33. Employee Share and Option Ownership Plans

The parent entity may offer ordinary shares and options over ordinary shares to employees of the economic entity. The maximum number of shares and options to be offered under the share and option schemes cannot exceed five percent of the parent's total number of ordinary shares on issue.

Employees have a period of 30 days from receipt of an offer, or another number of days as specified in the offer, to apply for the shares.

Shares are offered for sale on a fully paid up basis at the market price of the shares on the offer date less a discount of 10%. Share purchases financed via a parent entity loan do not qualify for a discount. Offer and exercise option prices are determined by the Directors at the date of each option issue invitation. The exercise price must exceed 50 cents per share.

Details of each plan are as follows:

	Ordinary Shares		Options	
	2008 No.	2007 No.	2008 No.	2007 No.
Total number issued since commencement of the plan	1,215,000	1,215,000	17,000	17,000
Total number that have become available for purchase since commencement of the plan	2,574,000	2,574,000	–	–
	No.	No.	No.	No.
Total number of employees eligible to participate in the plan at year end	543	340	541	337

Note 33. Employee Share and Option Ownership Plans (continued)

Purchase entitlements not taken up by employees by the exercise date are forfeited. Accordingly, no shares remain available at balance date for purchase. The total number of employees of the Group is 543 (340 at June 2007).

Since year end, a new share acquisition plan was introduced where all full time and permanent employees with at least 12 months service with the Company are eligible to participate. At the Board's discretion, shares may be acquired by purchasing on-market or via a new issue of shares. Where shares are purchased on-market, the purchase price will be the actual shares price of the shares purchased on the allocation date. For a new issue of shares, the purchase price will be based on the 5 day volume weighted average price of shares as at the day they are allocated to the Participant. Share acquired will be subject to an initial no-transfer restriction period of 2 years.

Note 34. Contingent Events

Details of contingent liabilities, where the probability of future payments is not considered likely, are set out below.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Recourse agreements

There are recourse agreements in place with finance companies (guarantees that customers will fulfil their obligations in respect of financing arrangements for machines sold by the economic entity). If recourse is invoked, title in the equipment passes to the economic entity. The net contingent liability on these agreements did not exceed \$0.15 million at 30 June 2008 (\$0.33 million at June 2007).

Bank guarantees

The Group has issued bank guarantees for rental bonds and foreign currency commitments of \$4 million at 30 June 2008 (\$7 million at June 2007).

Note 35. Share-Based Payments

The following share-based payment arrangements existed at 30 June 2008:

On 31 August 2004, 400,000 share options were granted to certain executives and employees to acquire ordinary shares at an exercise price of \$0.57. The Options are exercisable as follows:

1st Exercise Date	30/6/05
2nd Exercise Date	30/6/06
3rd Exercise Date	30/6/07
Expiry Date	30/6/09

When the employee ceases employment the options are deemed to have lapsed. All options granted above are ordinary shares which confer a right to acquire one ordinary share for every option held.

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 35. Share-Based Payments (continued)

	Consolidated				Parent			
	2008		2007		2008		2007	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	300,000	0.57	300,000	0.57	300,000	0.57	300,000	0.57
Granted	-	-	-	-	-	-	-	-
Forfeited	(100,000)	0.57	-	-	(100,000)	0.57	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year end	200,000	0.57	300,000	0.57	200,000	0.57	300,000	0.57
Exercisable at year end	200,000	0.57	150,000	0.57	200,000	0.57	150,000	0.57

The weighted average fair value of the options outstanding at year-end was \$0.05

This was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$0.57
Weighted average life of the option	4 years
Underlying share price	\$0.30
Expected share price volatility	10%
Risk free interest rate	7.25%

Note 36. Business Combination

(i) Edwards Dunlop and Raleigh Paper

(a) Summary of acquisition

On 30 November 2007, the group completed the acquisition of Edwards Dunlop Paper and Raleigh Paper, representing the Australian operations of the Red Paper Group (Detagna Pty Ltd). The Group divested its remaining New Zealand paper distribution operations to Edwards Dunlop (NZ) Limited, a company associated with the Red Paper Group as disclosed in Note 7(ii). The acquisition and divestment involved the transfer of certain business assets and liabilities to the respective acquiring entities and payment was effected by cash consideration.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$000s
Purchase consideration	
Cash paid	41,115
Direct costs	872
Total purchase consideration	41,987
Fair value of net identifiable assets acquired	40,616
Goodwill	1,371

Note 36. Business Combination (continued)

(b) Purchase consideration

	Consolidated		Parent	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Outflow of cash to acquire business				
Cash consideration	41,115	–	–	–
Less cash acquired	(570)	–	–	–
Outflow of cash	40,545	–	–	–

(c) Assets and liabilities acquired

	Acquiree's carrying amount \$000s	Fair value \$000s
Cash	570	570
Trade Receivables	44,097	44,987
Inventories	48,914	48,702
Plant and Equipment	1,603	1,603
Intangible assets (right of first refusal over Edwards Dunlop (NZ) Limited)	–	2,500
Trade Payables	(54,651)	(54,651)
Provision for employee benefits	(2,974)	(3,095)
Net identifiable assets acquired	37,559	40,616

(ii) Choice Inks

(a) Summary of acquisition

In January 2008, the group completed the acquisition of Choice Inks a small specialist ink distributor. The acquisition payment was effected by cash consideration.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$000s
Purchase consideration	
Cash paid	546
Total purchase consideration	546
Fair value of net identifiable assets acquired	299
Goodwill	247

Notes to and Forming Part of the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 36. Business Combination (continued)

(b) Purchase consideration

	Consolidated		Parent	
	2008 \$000s	2007 \$000s	2008 \$000s	2007 \$000s
Outflow of cash to acquire business				
Cash consideration	546	–	–	–
Less cash acquired	–	–	–	–
Outflow of cash	546	–	–	–

(c) Assets and liabilities acquired

	Acquiree's carrying amount \$000s	Fair value \$000s
Inventories	299	299
Net identifiable assets acquired	299	299

There were no acquisitions for the year ending 30 June 2007

(iii) Revenue and Profit or Loss as if effected at the beginning of the period

	\$000s
Revenue	541,592
Net Profit/(Loss)	5,113

Due to the immaterial impact of the revenue and profit derived from the Choice Inks business, the figures above are therefore not reflective of any earnings made from the latter prior to acquisition.

Directors Declaration

1. In the opinion of the directors of CPI Group Limited (“the company”):
 - (a) the financial statements and notes including the remuneration disclosures that are contained in the remuneration report in the Directors’ report, set out on pages 27 to 64 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company’s and the Group’s financial position as at 30 June 2008 and of the performance, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (Including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the remuneration disclosures that are contained in the Remuneration report in the Directors report comply with the Corporations Act 2001 and the Corporations Regulations 2001; and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418 as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2008 pursuant to Section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.



P.T. Reilly
Chairman



B.P. Cassell
Director

Dated at 29 September 2008

Independent Auditor's Report

To the members of CPI Group Limited



We have audited the accompanying financial report of CPI Group Ltd and controlled entities. The financial report comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Director's Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion,

- (a) the financial report of CPI Group Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 24 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of CPI Group Limited and controlled entities for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



D A KNOWLES
Partner

Date 29 September 2008



PITCHER PARTNERS
Melbourne

Shareholder Information

Substantial Shareholders

The following information is extracted from the parent entity's Register of Substantial Shareholders as at 16 September 2008.

Ordinary Shareholders	Number of Ordinary Shares
Arieli Pty Ltd, Goodrem Investments Pty Ltd and Computer Ways Pty Ltd	3,894,525
Nabawa Pty Ltd	12,000,000
Equity Trustees Limited	4,101,886
Trojan Equity Limited	3,923,458

Distribution of shareholdings as at 16 September 2008

Size of Holding	Ordinary Shareholders
1 to 1,000	174
1,001 to 5,000	531
5,001 to 10,000	226
10,001 and over	353
Total shareholders	1,284
Number of shareholders with less than a marketable parcel	202

Voting Rights

All ordinary shares issued by CPI Group Limited carry one vote per share without restriction.

Twenty Largest Shareholders for Each Class of Share as at 16 September 2008

Ordinary Shareholders	Number of Ordinary Shares	% of Ordinary Share Issued Capital
1. Nabawa Pty Ltd	12,000,000	20.7%
2. Equity Trustees Limited	4,101,886	7.1%
3. Trojan Equity Limited	3,923,458	6.8%
4. Citicorp Nominees Pty Limited	2,867,371	5.0%
5. Arieli Pty Ltd	2,138,612	3.7%
6. Queensland Investment	1,393,912	2.4%
7. National Nominees Limited	1,265,699	2.2%
8. ANZ Nominees Limited	1,212,922	2.1%
9. Wenola Pty Limited	1,130,000	2.0%
10. Alphen Investments Pty Ltd	1,077,419	1.9%
11. Goodrem Investments Pty Ltd	1,044,227	1.8%
12. Inglis Investments (Act) Pty Ltd	847,400	1.5%
13. Mr Franciszek Wilczynski & Mrs Luba Wilczynski	804,000	1.4%
14. Computer Ways Pty Ltd as Trustee for the B P Cassell Family Trust	711,686	1.2%
15. Hans and Delwyn Pty Limited	621,633	1.1%
16. Hammond Royce Corporation	611,001	1.1%
17. Ago Pty Ltd	572,000	1.0%
18. J P Morgan Nominees Australia Limited	458,355	0.8%
19. Trafalgar Custodians Pty Ltd	375,000	0.6%
20. Bow Lane Nominees Pty Ltd	350,000	0.6%

Corporate Governance Statement

This statement outlines the main corporate governance practices in place during the financial year, which complies with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors and its Committees

The Board of Directors is responsible for setting the strategic direction and monitoring the business and affairs of the economic entity, on behalf of the shareholders by whom they are elected and to whom they are accountable.

Board Responsibilities

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive Officer and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the chief executive and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committees referred to below, these mechanisms include the following:

- Board approval of a strategic plan designed to meet shareholders' needs and manage business risk;
- The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- Implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Regular reporting on occupational health and safety and the review and approval of acquisitions and disposals of businesses and assets, and the approval of contracts and financing arrangements within defined limits.

Composition of the Board

The members of the Board, and the capacities in which they serve, are set out on pages 18 to 20 of this Annual Report. Each director's appointment to the Board is subject to re-election on the basis of one third of the Board being re-elected every year on a rotational basis.

Whilst there is not a formally constituted nomination committee, the Remuneration Committee reviews the performance of individual Directors at least annually. The Board policy is that members should possess an appropriate mix of skills and experience. Each member is expected to bring both specific skills as well as broad business experience.

The current composition of the Board is as follows:

Mr P.T. Reilly (Chairman)	Non executive Director
Mr G. van Wyngen	Independent Non executive Director
Mr D. Abotomey	Independent Non executive Director
Mr B.P. Cassell	Executive Director
Mr D.W. Goodrem	Executive Director
Mr D.G. Bull	Executive Director

Whilst the number of non executive and executive directors is evenly matched, independent non executive directors are currently less than 50% of the composition. The Board does not believe it necessary at this point to increase this number, given the skill sets and composition of the sub committees, each of which has majority independent directors in place. There are enough directors to serve on the two sub-committees without overburdening or making it difficult for them to discharge their responsibilities. For these reasons, though the chair is not an independent director, the Board has considered no benefit in the appointment of a lead independent director.

When determining whether a non executive director is independent the director must not fail any of the materiality thresholds described in the Principles of Good Corporate Governance and Best Practice Recommendations document released by the ASX Corporate Governance Council ("Best Practice Recommendations").

Corporate Governance Statement (continued)

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer, senior executives and directors themselves. It evaluates the performance of the Chief Executive Officer and monitors management succession planning. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The members of the remuneration committee throughout the year were:

Mr P.T. Reilly (Chairman)	Non executive Director
Mr G. van Wyngen	Independent Non executive Director
Mr D. Abotomey	Independent Non executive Director

The Chief Executive Officer is invited to Remuneration Committee meetings as required to discuss senior executives' performance and remuneration packages.

The Remuneration Committee met four times during the year.

Details of Directors Remuneration are set out in the Remuneration Report in the Director's Report. Non executive directors do not receive options or bonuses, and retirement benefits are limited to statutory superannuation obligations.

Ethical and Responsible Decision Making

The Board is of the view that the highest standards of ethical conduct are required at all times by all Directors and employees. The consolidated entity has advised each director, manager and employee of the ethical standards by which they must conduct themselves. These standards are also contained in the staff handbook.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Board and the executive review the handbook and relevant manuals regularly, and processes are in place to promote and communicate these policies.

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists, the director concerned shall not receive the relevant Board papers and will not be present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated entity are set out in Note 28 to the financial statements.

Director dealings in Company shares

Directors and senior management may acquire shares in the Parent Company, but are prohibited from dealing in Company shares or exercising options:

- Except between 45 trading days following two trading days after the day on which the half year and full year results are announced to the stock exchange, and the period within 45 trading days following two trading days after the date of the annual general meeting.
- Whilst in possession of price sensitive information.

If a director or senior executive covered by the policy wishes to trade in CPI Group Ltd shares outside of the specified periods, then approval must be sought from the Chairman of the Board before any trade occurs.

Directors must advise the ASX of any transactions conducted by them in shares in the Company.

Directors and Senior Executives are defined as all non executive directors, executive directors and management who directly report to the Chief Executive Officer. All concerned have been notified of the policy.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the consolidated entity's expense. A copy of advice received by the director is made available to all other members of the Board.

Audit Committee and External Auditors

The Board has established an Audit Committee with a documented Charter approved by the Board, which is listed below. All members must be non executive directors with a majority being independent. The Chairman may not be the Chairman of the Board. The Committee advises the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

Mr D. Abotomey (Chairman)	Independent Non executive Director
Mr G. van Wyngen	Independent Non executive Director
Mr P. T. Reilly	Non executive Director

The external auditors and Chief Financial Officer are invited to Audit Committee meetings at the discretion of the Committee. The Committee met twice during the year. The Audit Committee meets with the external auditor at least twice per annum. The external auditor is also provided with the opportunity, at their request, to meet with the Board of Directors without management being present.

The Charter of the Audit Committee includes:

- Reviewing the annual and half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance with IFRS and generally accepted accounting principles.
- Monitoring corporate risk assessment procedures.
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence.
- Reviewing the nomination and performance of the external auditor
- Monitoring the establishment of an appropriate internal control framework, and appropriate ethical standards.
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and other regulatory requirements.
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

- Prior to announcement of results:
 - To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings
 - To recommend Board approval of these documents
- To finalise half-year and annual reporting:
 - Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
 - Review the draft financial report and recommend Board approval of the financial report.
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

The Chief Executive Officer and the Chief Financial Officer are required to represent in writing, that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Board requests the external auditors to attend the annual general meeting to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, division of responsibility and the careful selection and training of qualified personnel.

Disclosure Policies

The Company has established policies and procedures, which seek to address compliance with ASX Listing Rule disclosure requirements. The Board is ultimately responsible for ensuring that appropriate vetting and authorisation processes are in place to ensure that company announcements:

- Are made in a timely manner
- Are factual
- Do not omit material information
- Are expressed in a clear and objective manner

Corporate Governance Statement (continued)

The Chief Executive Officer and Company Secretary continuously review all information of which they become aware of for the purposes of ASX Listing Rule 3.1 and are authorised to make announcements to the ASX on behalf of the Board.

Rights of Shareholders and Communication Strategy

The Board informs shareholders of all major developments affecting the consolidated entity's state of affairs as follows:

- The half-year report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote to shareholders.
- The full annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document).

All documents that are released publicly are made available on the consolidated entity's internet web site at www.cpigroup.com.au.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the constitution are available to any shareholder who requests it.

Business Risk Management

Major business risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on the price of trading stock, and the purchase, development and use of information systems.

Details of the company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in Note 2 to the financial statements.

In addition, employees are provided with operational manuals, procedures and training which is designed to assist safe operations and compliance with applicable laws.

Comprehensive practices are established such that:

- Capital expenditure and revenue commitments above a certain size require prior Board approval.
- Financial exposures are controlled, including the use of derivatives.
- Occupational Health and Safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- Business transactions are properly authorised and executed.

During the 2008 financial year, the Company reviewed its risk management practices on an ongoing basis, including but not limited to the following areas:

- Occupational Health & Safety
- Property
- Financial reporting and internal control

The Board envisages that this process is ongoing and will seek to augment the current risk management procedures as the need arises.

Other Stakeholders

The company has a number of legal and other obligations to non-shareholder stakeholders including but not limited to its employees, customers and suppliers. Accordingly, it has developed systems and procedures designed to safeguard the legitimate interests of such stakeholders.

Company Particulars

Company Secretary
L Duncan

Website
www.cpigroup.com.au

Registered Office
41-45 Mills Road
Braeside Vic 3195
Ph. (03) 8587 3500

Share Registry
Computershare Registry Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067

Auditors
Pitcher Partners
Level 19, 15 William Street
Melbourne Vic 3000

CPI Group Limited ordinary shares are listed under the symbol of CPI on the Australian Stock Exchange Limited.



