

**CPI GROUP LTD
ANNUAL GENERAL MEETING
18 NOVEMBER 2004**

MANAGING DIRECTOR'S ADDRESS

Ladies and Gentlemen:

Twelve months ago I stood in front of you and outlined the challenges that the company had been faced with over the previous two years. Challenges that had impacted on all parts of the business, but mostly the non-paper areas. I indicated that I would be placing my recommendations before the Board

After considering the options available, I presented my recommendations to the Board shortly after the last AGM. The Board accepted these recommendations and we immediately set about implementing them. Implementation was not without its pain and difficulties as many of you will be aware, but the measures were necessary.

Our goals were to simplify the business, ensure asset allocations were appropriate, place the company back on a sound financial footing and return to profitability. I am please to say that although the process was painful, we have now achieved most of those goals.

In contrast to last year where debt was almost 100% of NTA and the Group was not trading profitably, today debt is less than 50% of NTA and the Group is trading profitably. We are now able to focus on rebuilding shareholder value without the immediate pressures that were upon us at that time. This is not to suggest that we are content with the progress made, far from it, there is still a great deal to be done. But we have regained control of our own agenda.

To achieve this turnaround we had to focus on a number of major requirements.

The single most important area of focus was the exit from the major loss making operation of Pre-Press Products. This area had been a source of great difficulty for some time. The move to new digital based technology had significantly reduced the volume of sales that could be achieved. In effect the market for these products more than halved. Competition became intense as suppliers and manufacturers tried to retain as much business as possible.

We formed the view that this market was best suited to the manufacturers and set about achieving an orderly exit in the shortest possible time frame. Whilst there was a one-off cost to this exit of \$5 million, the ongoing operating losses were stopped and significant working capital in the order of approximately \$6 million was released.

This exit from Pre-Press Products, together with some earlier restructuring, created excess capacity within some of our distribution centres. This was particularly the situation in New South Wales.

We reported last year that we had alleviated this to some degree with a sub-lease to Australia Post. The exit from Pre-Press Products made it apparent that the building was no longer ideal for CPI. Negotiations were commenced with Australia Post and the sale of our interest in the property was concluded in May. Not only did this release over \$9 million in

funds employed, but also it has enabled us to find alternative premises more appropriate to our ongoing operations.

Our relocation from Wetherill Park is a staggered relocation which will not be concluded until early 2005 following the construction of a new facility at Greystaines. This facility is being specifically constructed for CPI by the Australand Group and allows room for future expansion. We are pleased to have been able to conclude this sale which recognised not only the value in the structure, but also the value in the systems investments we had made.

The third major area of attention for us was to reduce the funds employed in the Machinery division and return it to profitability. We have so far reduced the funds employed by over \$15 million and have almost reached our target level. We are determined to reach our target level and hope that we will achieve this in the next few months.

Whilst all these changes focussed on the elimination of losses and the reduction of debt, that was not our only focus. During the year the opportunity arose to acquire the business of the Boomerang Paper Group, which had gone into receivership. This business was complementary to the existing CPI paper merchandising business, operating as a niche supplier to the business forms market. It also takes CPI into specialised areas that we had not previously participated in.

Having acquired the business however, we quickly set about restructuring its operations to ensure that it had a cost base that was appropriate and one that would enable Boomerang to return to profitability. Its operations in both Queensland and Western Australia have been relocated into CPI's existing facilities, and staff numbers have been rationalised.

Throughout all these changes of course we have had to ensure that our staff remained focussed on building and maintaining our remaining business units. Notwithstanding the many and difficult extraneous jobs that had to be taken on board, your staff did this very well, and the core paper business performed well. A volume increase of 5% offset an equivalent fall in average selling prices. In the face of the many distractions this was an excellent performance. We could not have achieved all that has been done without the hard work of the management team and our staff. I would like to record my gratitude, and that of the Board for their support.

As I have already mentioned the Group is now operating profitably. The Machinery division has recorded a small operating profit for the four months to October, and the Papers business has continued to operate profitably, at levels commensurate with the industry. We do not believe however that these levels are yet appropriate and will continue to strive to improve these returns. The environment remains challenging with changes occurring almost daily. The current gyrations in the value of the Australia Dollar just one such challenge.

Nevertheless we are confident that the Group is now well positioned for the future with a profitable base and a sound balance sheet. We will continue to strive to improve this performance in the years to come.

Thank you.

Bernard P Cassell
Managing Director