

**CPI GROUP LTD
ANNUAL GENERAL MEETING
23 NOVEMBER 2005**

CHAIRMAN'S ADDRESS

Last year your company returned to profitability, after a couple of years of rationalisation and fierce cost-cutting. This should be an occasion, therefore, where we talk with you, with confidence and optimism about the future, and promise imminent rewards such as a return to paying dividends. Unfortunately, that is not yet the case, and what we can promise only, at this stage, is the board's determination to continue doing whatever is necessary to ensure CPI returns to sound, long term profitability.

We have of course received both questions about the company's performance, and suggestions, from time to time, and they have come from both large and small shareholders. The Corporations Act and Australian stock exchange regulations prevent us from answering these individually so in this brief address I will use the opportunity to attempt to give you some perspective for what has happened, and the board's strategy and actions within that perspective.

You may already be aware that the Australian and New Zealand paper merchant industries have entered their most savage margin squeeze in history. In CPI's case, we continue to increase our market share by hard work and good customer service, but our gross profits – despite the increased volumes – have fallen.

A major factor is the lower price of paper. Even if our *percentage* margin remains the same as previously, if prices fall – as they have done now for some years now – the *dollar* margin falls as the price of paper falls. However, to state the obvious, our costs have moved in the opposite direction – wages and fuel prices are examples. We are therefore being squeezed from both sides.

But the problem is not only the lower cost of paper. There has been in 2005, and there still is, a savage price war in the Australian fine paper market. In New Zealand, where we have a smaller presence, the same thing has occurred.

The Australasian paper industry is not unique in this problem of course. Many other industries have recently suffered margin squeeze. In most cases however, and electronic goods and travel are good examples, *volumes* generally increase as prices fall. However, this has not been the case in the fine paper market that constitutes the major portion of CPI's business.

We assume that our competitors in these markets, and they are in the main effectively the same in New Zealand as in Australia, are hurting the same way as we are. Unfortunately that is no comfort to the CPI board, or to CPI shareholders, nor can we or will we run a business on this basis. We must have, and will seek, solutions, and these solutions must benefit shareholders.

Your board continues the process of striving for a commercial return on assets. As you have seen, this may involve asset sales where an asset is not performing, or alternatively the purchase of a business (such as Boomerang, two years ago) to obtain synergies or lower unit operating costs, or both.

Your board does not accept as realistic the company's present share price, which is well below net asset backing, and our chief executive, Bernard Cassell, will have an update on that. I'll restrict my comments at this stage to the fact that the board is conscious of the differential between the company's share price and the net tangible assets per share. We hope that continuing work by the company during the coming months will bear fruit and enable us to report to you matters that I believe should be positive for CPI's share price.

Some of the question we receive relate to the merits of industry rationalisation, as logically this should reduce the unit operating costs of participants in the merchant paper industry. It is a belief we ourselves subscribe to, and that we will investigate if an opportunity arises. However, clearly any potential transaction must benefit CPI shareholders, and that will be the board's criterion in examining any proposal.

While the aim of *satisfactory* profitability has not yet been achieved, the most important stepping stone towards that has. Non profitable divisions have been sold, debt repaid, and a strong balance sheet achieved. Cash flow is positive, and we now have the tools to move forward.

I hope this gives you a better perspective of the industry in which CPI operates, the challenges that face your company, the options that the board examines on a continuing basis for progressing the company, and our determination to provide a better return for shareholders.

Gerry van Wyngen
Chairman