

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

MANAGING DIRECTOR'S ADDRESS

Ladies and Gentlemen:

The 2005 year was the year in which many of the initiatives referred to in my address to the last AGM were completed. It was also the year in which the company returned to profitability. The achievement of these initiatives has simplified the operation of the company to the point where we can focus on building our business for the future without many of the distractions that have occurred over the course of the previous few years.

During the year, the last remaining assets of the Imaging division were realised and all operations in that area closed. This area had been a source of distraction for many within the company whilst it was being wound up and to have it all now behind us leaves us free to focus on the future.

Following the sale of our interest in the New South Wales property, reported last year, the staggered relocation of the New South Wales operations was also concluded during the year. This was a complex and protracted relocation often involving operating from multiple locations. The fact that this was able to be achieved without any disruption to our customers is a tribute to the staff involved.

2005 was also the year which saw a substantial re-organisation to our Machinery division. The company has been successful in reducing Funds Employed within this area to the lowest level for many years. Funds Employed have reduced to \$5.6 million, two year ago they stood at close to \$23 million. In addition to the reduction in Funds Employed, we have also significantly reduced the cost base of this division creating an environment whereby the division now has an excellent opportunity to deliver a good return on Funds Employed. The best news however is that although the division is not profitable for the first four months of the year, based on orders already in hand we fully expect that this division will be profitable for the 2006 year. It's first profit for many years.

Our focus has always been not only to recover CPI's former profitability and market position, but also to ensure that the Group has a sound financial position for the future. A further step in this direction was taken two weeks ago when the Group's interest in the Braeside property was sold to ING Management Ltd realising a significant profit. This has now reduced our net debt levels to around \$30 million giving a debt to equity ratio of approximately 50%, a comfortable level. In addition we believe we can further improve the financial position of the Group by the end of this financial year by careful management of working capital. Our aim is to ensure that we have the soundest possible financial position providing flexibility for the Group to pursue any expansion opportunities that may present themselves.

With the achievements of the objectives noted earlier, we have now completed most of the structured elements of the recommendations I placed before the Board some two years ago. Operationally though we still have much to achieve. Throughout all the restructuring that has taken place over the course of the last two years we have maintained our focus on rebuilding the image and position of the Group. During the last Pacprint exhibition in May, rather than exhibit as a me too supplier, the Group took an innovative approach and brought visitors to its showroom by helicopter. In addition to being very cost effective, it provided unprecedented exposure and publicity for the Group throughout the industry.

In our Paper merchanting division, by far the largest of our operating divisions, through a continued focus on returning to our core values of service and support, we have continued to regain our position. As we reported at the time of the release of the 2005 year results our volumes grew by some 5%, although due to the decline in selling prices, revenues were flat. A very similar position has occurred in the four months to October, with continued volume growth being eaten away by falling sell prices. It would be nice to be able to say that these falls in selling prices were matched by falls in buying prices. Regrettably that is not the case.

As a consequence of this margin erosion, whilst the Paper division continues to operate profitably, it is at levels below last year. Your Board and I agree however that this position cannot be allowed to continue, and although we continuously strive to broaden the base to achieve a satisfactory level of profitability, regrettably this alone is not enough. Irrational pricing behaviour has taken it past this point. The Paper industry worldwide has been brought to its lowest ebb by this irrational behaviour. It surely cannot continue for much longer.

This transfer of shareholder value from Paper Merchants to their customers cannot continue. To that end we have announced a price increase to the market which will take effect from 1 January 2006 and intend to hold that position. Our customers will have to decide if they wish to maintain full service paper merchants such as ourselves, and if they do, are they prepared to pay enough to ensure that is the case.

In summary therefore let me recap. Our structural changes are complete, the balance sheet is very sound, NTA is well above our current share price, the Machinery division although not profitable year to date is expected to be profitable for the full year and our Paper division is profitable but at reduced levels. Following the sale of the Braeside property, NTA per share now stands at 90 cents, which is roughly twice the current share price. Although we understand that our earnings are not at this stage sufficient to justify a share price of NTA, the discount is surely too great. We will continue to do whatever we have to in order to return the business to an appropriate level of profitability and to justify a significantly higher share price.

Thank you.

Bernard P Cassell
Managing Director