

**CPI GROUP LTD  
ANNUAL GENERAL MEETING  
20 NOVEMBER 2003**

**CHAIRMAN'S ADDRESS 2003**

Over the past year our company completed rationalisation of a number of areas of the business operations, and generated operating cash flow of \$19.5 million. These rationalisation benefits have not yet flowed through to profitability. Underlying earnings before interest, taxation and depreciation was \$9.1 million, which is inadequate.

The new fiscal year has started in an unsatisfactory manner. While the company's core activity of paper merchant is operating marginally above budget, the ancillary activities of machinery and imaging have disappointed by coming in below budget year to date.

The work to improve the performance of our company continues with undiminished determination, in a step-by-step process. It is one of hard work, clear focus on what we want to achieve, and recognition that each action to improve long-term performance, usually has a short term cost. That cost may be a once off extraordinary item or a short term operating one, and it may be one of dollars, administrative or sales resources.

It would be ideal if a single suite of brilliant decisions, implemented swiftly, would produce an instant profit result. In practice it is more complex. A company works in an interactive environment where decisions may evoke reactions from customers, competitors, and even a company's own staff in a manner that initially, may disguise the ultimate benefits of the decisions. Sometimes the results of implementation of decisions can be predicted rationally. Alternatively, occasionally they are compromised by the unforeseen or irrational events.

Our process of moving forward to increase the cash flow and profitability of our company, inevitably encounters all such situations.

The urgent requirement to divest the Trading Division, which was writing losses, using cash, and required considerable management resources, had a *predictable* short term negative effect. It left us with a substantial amount of empty office and warehouse space, which we are only now overcoming. That has been a short term cost that went straight down to the bottom line.

The decision to restructure our imaging equipment and consumables operations, including changing supplier, was imperative from a cash flow point of view. Simply, the area provided inadequate returns, and used excessive funds.

However, the change-over was more difficult than anticipated, a function of two main factors. First, a battle for staff, stock and customers developed. Our company had anticipated this could happen, and was prepared for it. However, it reached an intensity that bordered on the irrational, with implication for the earnings of all suppliers in that market.

Second, our new supplier – which has an enviable record of superb quality for its products – encountered problems on a key product. The timing was the *very* month of the changeover.

Management of change then, is a patient process of clear thinking, painstaking implementation, monitoring, and being prepared for the unexpected and working through that. That is what our company is doing.

Bernard Cassell, our new CEO, will elaborate on this in his address to you.

I would like to turn now to the future. We are only part way through the restructuring process. The Board believes that our company must work towards achieving a commercial return on funds employed.

It is an *ongoing* process. After the monthly board meeting this afternoon, we will meet tomorrow for a full day of considering various aspects of our strategy initiatives.

You will notice we have not only a slimmer company now, but also a slimmer management structure. We need a leaner company able to react more quickly, operating from a lower cost base, and higher cash flow.

Steve Somogyi, our CEO until September this year, was a leader of this drive, and on behalf of the Board I would like to thank him for his contribution. Bernard Cassell, previously our Chief Operating Officer, now leads the further development and implementation of this strategy.

I would also like to thank Daryl Lea, who has been invaluable in the formulation of strategy and its implementation, and like all our non-executive directors, has given time well beyond that customarily expected. Mr Lea rejoined the Board just over a year ago to lend his considerable knowledge and experience at a crucial time. As some shareholders may know Mr Lea recently purchased another business, in a non-competing field, and consequently he will retire today. We wish him the very best, while hoping we may still have the benefit of his counsel from time to time.

Sven Rosman has also retired from Board, and I would like to thank him for his help during the period that he was associated with CPI. Mr Rosman always regretted his inability to travel from Sweden to Melbourne on a regular basis, but made up for this with his sound advice by phone or in person when we visited him in Sweden.

Mats Nordlander of the Stora Enso group was to have joined the Board, but in accordance with our desire for overseas directors to attend meetings in Melbourne, Mr Nordlander has withdrawn his nomination in favour of Hans Swartling.

Mr Swartling is Financial Controller of Stora Enso for the Asia Pacific region. Because this change has happened too late to comply with the notice period, Mr Swartling will be appointed by the Board after this Annual General Meeting. He will vacate office at the next AGM, and hopefully offer himself for re-election at that time.

Of all the developments over the past year, one of the most pleasing is the increasing leadership of our managers, and the continued improvement of staff morale as changes begin to bear initial fruit. Nobody doubts more work is to be done, but it is a challenge that is being met with enthusiasm. I would like to record here, the Board's appreciation.

I am grateful also to my fellow directors, who are dedicated, and have contributed well beyond the call of duty.

CPI is a service company, and ultimately our main asset is our people and their enthusiasm.

Gerry van Wyngen  
Chairman