

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

MANAGING DIRECTOR'S ADDRESS

Ladies and Gentlemen:

During the last two years, this company has been party to an industry undergoing significant change. These changes particularly affected the non-paper side of CPI's business and as a complete supplier to the industry, the company has been exposed to those changes no matter which sector was affected. Some areas were affected more than others. For instance the technological change affecting the pre-press side of the industry will ultimately reduce the usage of consumables by more than 50% in dollar terms. This changeover is, in our opinion, more than 50% complete throughout the industry.

Rapidly gyrating exchange rates have also been a factor. Within the last 4 years the A\$ has fallen 29% against the US\$ only to rise by a similar amount. Similar movements have occurred against the yen and smaller movements have occurred against other currencies. Each of these movements created further complications in dealing with the changes as they affected each business area differently.

The dynamics within the paper merchanting industry also changed with the floating off by Amcor of PaperlinX and the subsequent acquisition of Spicers Papers. This resulted in the sale of certain paper merchanting components of Spicers Paper to comply with competition requirements and led to a far more competitive environment than had existed in paper merchanting for a very long time.

Simultaneous with all this change was the Board's decision to sell the unprofitable Trading division and also the changes at Managing Director level which resulted in the appointment of Stephen Somogyi as our CEO approximately two years ago.

Over that time we have seen the successful sale of the Trading division and a substantial amount of restructuring. From a peak in late 2000 of some 600 people the Group now employs a total of only 380. The operating structures have been significantly simplified and the reporting chains are therefore much shorter.

A focus was also placed on management of working capital and discussions were entered into with key suppliers with a view to negotiating additional terms to assist in the funding of the Group's operations. Some of these negotiations were successful whilst some precipitated a subsequent change in those suppliers. Notwithstanding the significant amount of restructuring effort that has so far been concluded and a reduction in staff of more than one third, it is clear that more work needs to be done. As the Chairman has indicated this has been a difficult start to the year and it is clear that a number of the goals that the Group had set itself are unlikely to be met at this stage.

At the start of this financial year the Board was optimistic of a significant improvement in the performance of the company in the ensuing twelve months. Improvements were seen in the overall level of demand and CPI was clearly recovering its past reputation in the market place. In particular the machinery enquiry book looked very strong and indeed in late 2003

and early 2004 the Group achieved machinery sales well in excess of that experienced in the previous six months. A number of significant tenders had been let and the Group was confident that it could win its share of those tenders.

The positive economic environment also gave cause for optimism and there appeared to be a buoyancy in customers' attitudes translating into confidence in order placement. However we are sorry to advise that this diminished over the course of the last few months.

In addition, the internal targets set by the Group for conversion of its customer base onto the replacement products have not been met. In this respect we have been significantly hampered by technical difficulties experienced by our major suppliers of these replacement products. These product difficulties could not have come at a worse time for the Group as we were in the process of trying to convert customers from a product that they had little difficulty with, to one which was suddenly demonstrating problems. Whilst these product problems now appear to be substantially behind us, they have left us behind the targets we had set ourselves and of course, we have the problem of convincing customers that they should now change and trust a product that has recently experienced some difficulties. Notwithstanding all that, we have redoubled our efforts and we believe are currently demonstrating our ability to sell the replacement technologies. It is however going to take some time before we recover the position that we had originally determined as our target minimum goal.

Faced with these issues, in my first few months as Managing Director I have set about identifying the factors that need to be addressed. Instant remedial action has been taken where it could be taken. We have continued the process of creating a strong focus on what has to be done within the organisation whilst at the same time continuing to reduce our head count. We have sought to identify spare capacities that have arisen as a result of the divestiture of the Trading division as well as the reduced volumes being experienced in other parts of our operations.

I am pleased to be able to report that in the last few months we have been able to fill the surplus capacity within our Victorian warehouse through a process of part sub-leasing and part providing services for some of the other operators in our industry.

In New South Wales we have achieved this through a sub-lease and a provision of warehouse services to Post Logistics, a division of Australia Post. The costs of our state of the art Sydney distribution facility have been a drain on the company since the significant downsizing had occurred. We are delighted that following the commencement of our arrangements with Post Logistics the current net rental in New South Wales is now commensurate with the space required by our operations in that State. We continue to look at the possibilities in relation to our interests in these two properties to evaluate whether the Group's funds could be better employed in some other manner.

In addition to looking at ways in which we can better utilise our facilities and trim the cost base of the Group, I have commenced a review of the strategic options in front of us. I will shortly be presenting to the Board my recommendations in relation to where we take the Group forward from here.

Whilst I have spoken at length about the challenges facing the Group at the moment, it would be remiss of me not to talk about the successes that the Group is also experiencing. Throughout all the changes that the Group has experienced recently our restructuring of the Paper merchanting division together with the replacement of various managers has started to pay dividends. The performance of this operation in the current financial year is significantly ahead of last year and ahead of budget. We are pleased to have been able to arrest a slide in the reputation of the Group as a supplier that appeared to have occurred in the early stages of our acquisition of Graphics businesses. In hindsight it would appear that the

Group's attention was distracted from the important paper division whilst it dealt with the other areas of the business. It is pleasing to be able to say that we are confident that the Group's reputation as a supplier of fine paper is as high today as it has ever been. This was evidenced by the Group's recent success in securing what we believe to be the second largest tender for paper ever let in Australia by an Australian sheetfed printing establishment. We will continue to actively look for ways in which we can improve the performance of this division.

I have mentioned our disappointment in the difficulties experienced in the change over of key suppliers of consumables and our failure to meet our revenue retention targets. Notwithstanding this, the changeover of suppliers has met our expectations in reducing funds employed within the business.

The combination of all the circumstances affecting the Group's operations has unfortunately meant that the Group is not at this point, operating profitably. It is clear the current market expectations for the half year will not be met and that further restructuring needs to occur. We are determined to ensure that the Group returns to delivering a return to shareholders in the shortest possible time. Every option is being investigated to achieve that turn around and once these strategies can be advised to the market we shall do so. In the meantime we assure you, our shareholders, that we will do everything possible to achieve that end. My management team and I are committed to that goal and I would like to pay thanks to that team for the support they have given me in the brief time I have been Managing Director. I look forward to working with them in the months and years to come.

Thank you.

Bernard Cassell
Managing Director