

The strength of the four division structure of CPI today is its product spread through the printing process and its distribution capability.

### BRAESIDE CONSOLIDATION

This year CPI will reflect physically the changing face of its operations by expanding its headquarters at Braeside, south-east of Melbourne, and centralising Victorian operations there. CPI Graphics will relocate from Notting Hill to Braeside which will become a showcase and warehouse for all CPI's distribution business.

Construction work on the extensions at Braeside is expected to be completed by July/August with an official opening planned for October.

The integration of business units combined with the new computer system should enhance group distribution capability further.

### NEW DIRECTORS

In addition to Mr Alf Carrigan, Managing Director of CPI Graphics, new board appointments made in December 1998 were Messrs Pat Stone and Graeme John.

Mr Stone was Managing Director of Carlton & United Breweries Limited between 1988 and 1994, having previously held a number of positions in the company encompassing both finance and property. Mr John is Managing Director of Australia Post and was previously a Deputy General Manager of TNT Australia, giving him an extensive background in transport and distribution.

### FUTURE

In announcing half year results, directors made the following comments regarding the future:

- > we are confident of the outlook which should see a continuation of first half performance
- > however, this would be driven by two factors—general economic conditions and the continuing industry drive for better technology in printing and pre-press
- > additionally, benefits from the partnership with Raflatac are expected to flow through during the second half and into the next financial year.

### STOCKBROKER FOLLOWING

CPI's diversification strategy has attracted some favourable comment from the investment community. Among stockbroking firms following CPI are Credit Suisse First Boston, Macquarie Equities, Ord Minnett, Deutsche Morgan Grenfell, SBC Warburg and Hartley Poynton.

### MEDIA QUOTES

'THE OUTLOOK FOR (CPI IN) 1998-99 IS MUCH BETTER. PAPER MARKET CONDITIONS HAVE IMPROVED AND THE ACQUISITION OF NEW BUSINESSES IS PAYING OFF.' BUSINESS REVIEW WEEKLY 7 DECEMBER 1998

'ONCE JUST A PAPER COMPANY, CPI IS NOW FAR MORE FOLLOWING SOME CLEVER ACQUISITIONS.' SHARES FEBRUARY 1999

### PROFIT UP

CPI's results announcement for the half year to 31 December 1998 was an important milestone for the company.

It was the first news of performance of the group since the \$72 million acquisition of a graphics business finalised in April 1998 and which was funded by a \$40 million capital raising.

The results have proven the value of CPI's strategy to diversify and to be less reliant on the cyclical paper merchandising operation.

Operating profit after tax increased 473.8 per cent to \$6.4 million for the six months to December 1998 compared with the previous corresponding period.

This represented an increase in earnings per share from 2.84 cents to 12.05 cents, enabling directors to increase interim dividend from 6 cents to 7 cents fully franked.

The effect of diversification has been to create four divisions within CPI—paper, graphics, trading and Raflatac Oceania (adhesive products). The new weighting of the businesses is shown by paper, which represented 82 per cent of sales for the full year ended 30 June 1997, contributing 47 per cent of sales for the current half year.

This type of performance characterises CPI more as a diversified distribution company and all divisions contributed to a significant lift in sales revenue, up 65 per cent from \$134.714 million to \$222.343 million for the half year.

### PERFORMANCE FACTORS

A number of factors contributed to CPI's results, including:

- > strong machinery sales in the newly established CPI Graphics business
- > a solid performance from paper, supported by a better cost base, in a market characterised by stable prices
- > continued strong growth from CPI Trading.

Managing Director of CPI, Mr Ian Harry, said that some cost reductions had been achieved at the same time as building a strong group of businesses.

'CPI's strategy is to pursue growth aggressively in all areas of operations and we continue to look for opportunities which will strengthen our business,' Mr Harry said.

### HALF YEAR HIGHLIGHTS

#### SALES

\$222.343 million—Up 65%

#### PROFIT

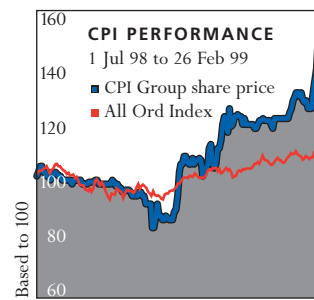
\$6.4 million—Up 473.8%

#### EPS

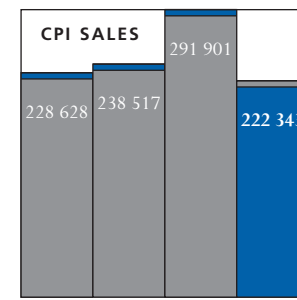
12.05 cents

#### DIVIDEND

7 cents fully franked



Based to 100  
Source: IRESS



FY 96 FY 97 FY 98 HY to Dec 98

PRINTED ON LUSTRE SMOOTH TAGSM BRILLIANT WHITE ON A KOMORI PRINTING PRESS USING HOSHIMANN STEINBERG RAPIDA INTENSIVE 7080 SERIES INK



Mr Ian Harry, Managing Director of CPI Group Limited.

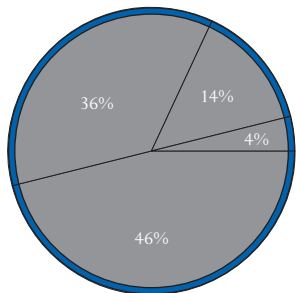
**DIVERSIFICATION STRATEGY**

CPI's strategy to diversify has its origins in the company building a successful paper merchandising operation over many years, only to see its performance affected often by market factors beyond management control.

At the time of listing on the Australian Stock Exchange in 1992, CPI had only a small amount of revenue derived from non-paper products such as

**REVENUE CONTRIBUTIONS**

Half year to 31 December 1998



46% CPI Papers (including self adhesive sheets)  
 36% CPI Graphics  
 14% CPI Trading  
 4% CPI Business Papers

inks and self adhesive products. However, over the next five years, the company took a number of small steps to position itself for a major expansion of its range of businesses. These included the commencement of its industrial products distribution business, and the expansion of its self adhesive manufacturing capacity to include roll label products.

The 1998 financial year was the year in which each of these initiatives were augmented with significant moves that established four major trading divisions in their own right.

**DISTRIBUTION COMPANY**

A factor the four CPI divisions have in common is that essentially they are distribution businesses, with the advantage of having a crossover in a large part of their customer base. This year CPI has enhanced its distribution capability with improved software, computerised picking and packing in warehouses, a greater management focus on improving logistics and the initiation of expanded and centralised warehousing.

**CPI PAPERS**

This remains the group's biggest operating division, with CPI Papers being the largest independent paper merchant in

Australia and New Zealand. CPI Papers supplies a complete range of coated and uncoated fine paper and board. It operates high speed sheeting and reel slitting machines to provide paper in the ideal form for its range of customers. The paper is sourced from Australia and overseas, with pricing affected by a range of international market and currency factors.



Lusté—this new product was an immediate market success.

**CPI GRAPHICS**

Operating for a number of years as SICPA Graphics and having built annual sales to around \$120 million, this business was acquired by CPI in April 1998. The management team has also remained with the business and its managing director, Mr Alf Carrigan, continues to run CPI Graphics as well as having joined the CPI Group board.



Komori 28 printing press.

Following its integration CPI Graphics will become a one-stop-shop for printers in Australia and New Zealand by combining CPI's existing inks, press chemicals, plates and printing blankets business with CPI Graphics' printing machinery and imaging systems agencies.

CPI Graphics represents a number of the printing industry's most highly regarded suppliers and is finding strong demand for its product range as the printing and pre-press industry pursues the latest high technology machinery.

**CPI TRADING**

Sales have grown from \$13 million in 1996 when this business was acquired to an annualised \$60 million in 1999.

This division supplies a range of basic consumable items for businesses—such as cleaning accessories, industrial products, packaging material and

chemicals which are not for sale economically at a retail level and which often are required in bulk. The strength of the business is giving customers better service, operating efficiency and purchasing power.

Built on three small acquisitions this division also sees strong organic growth. Management intends to continue to expand this division dynamically over the next few years.



A small selection of CPI Trading's vast product range.

**RAFLATAC OCEANIA**

This division is a partnership with Raflatac OY, a world leader in and Europe's largest producer of adhesive products. The partnership involves combining CPI's equipment and the existing Raflatac Australia business, giving the combined enterprise access to advanced self-adhesive products, strong brand identification and export opportunities.

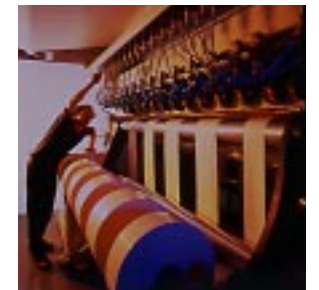
**CLIENT QUOTES**

'CPI TRADING IS VERY FLEXIBLE AND THEY KNOW OUR BUSINESS' JOHN OXLADE, INTERNATIONAL MERCHANDISING MANAGER, VILLAGE CINEMAS.

'CPI PAPERS HAS VERY GOOD SPECIALTY AND COATED RANGES' KEN CRAMB, ART DIRECTOR, ART PROJECTS CREATIVE.

'CPI WORKED VERY HARD TO PROCURE A VERY GOOD MACHINE AT A VERY GOOD PRICE' DALE WILLIAMS, GENERAL MANAGER, SIGNS PUBLISHING.

'WE HAVE BEEN CPI ORIENTATED SINCE WE STARTED' RAY KRATZMAN, MANAGING DIRECTOR, SCREEN OFFSET PRINTING.



Self adhesive slitter and rewinder.