



PAPERS CPI GROUP LIMITED
 ACN 006 364 067
 TRADING 41-45 MILLS ROAD
 GRAPHICS BRAESIDE VIC 3195
 TELEPHONE (03) 9239 3600
 FACSIMILE (03) 9239 3755

CPI GROUP LIMITED

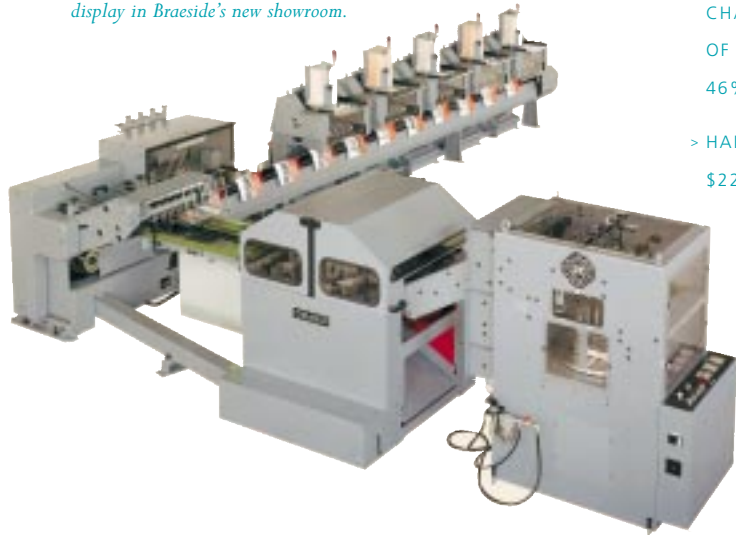
MID YEAR REPORT
 TO 30 JUNE 1999

BUSINESS UPDATE

A recent business achievement for CPI Graphics has been its appointment as an exclusive agent for Australia and New Zealand by two of the industry's most highly regarded print finishing equipment manufacturers.

The two companies are Herzog & Heymann, a German manufacturer specialising in direct mail folding and finishing systems, and Osaka & Company, a leading Japanese manufacturer of saddlebinding systems.

An Osaka saddlebinder will be on display in Braeside's new showroom.



SHAREHOLDER INVITATION

Directors of CPI would like to invite all shareholders to a presentation and tour of CPI's new facilities at Braeside on Wednesday, 1 September 1999 at 11.30am.

The tour and presentation will conclude with light refreshments.

If you would like to attend, please call Simone Mohr at CPI Telephone (03) 9239 3600.

CPI AT A GLANCE

- > ESTABLISHED IN 1977
- > EMPLOYS 600 PEOPLE
- > PUBLIC COMPANY SINCE 1992
- > MARKET CAPITALISATION OF \$150 MILLION
- > OFFICES AUSTRALIA-WIDE AND NEW ZEALAND
- > FOUR BUSINESS DIVISIONS—CPI PAPER, CPI TRADING, CPI GRAPHICS AND RAFLATAC OCEANIA
- > ESSENTIALLY DISTRIBUTION BUSINESSES
- > BUSINESS MIX HAS CHANGED—PAPER WAS 82% OF REVENUE IN 1997, 46% AT HALF YEAR 1999
- > HALF YEAR 1999 SALES WERE \$222.3 MILLION, UP 65%.

BUSINESS INTEGRATION

The transformation of CPI from a paper company to a diversified distribution business is virtually complete.

Business integration has been accomplished at corporate headquarters in Braeside, south east of Melbourne.

All four divisions—CPI Papers, CPI Trading, CPI Graphics and Raflatac Oceania—now operate from the one site.

This process has recently been achieved in other Australian cities and will take place in Sydney in new premises in April 2000.

In early July at Braeside, the finishing touches were put to 2 000 square metres of extensions (pictured below).

These comprise a showroom for presenting the latest industry machinery and technology, a conference and presentation room with seating for 150 and new office space for CPI Graphics and Raflatac.

Executive Deputy Chairman, Mr Darryl Lea, has coordinated the integration project, the major component of which has been relocating the CPI Graphics business from premises at Notting Hill, Melbourne, which it had occupied for six and a half years.

Managing director of CPI, Mr Ian Harry, said the integration of CPI's business would meet several objectives.

'It will achieve cost savings, improve efficiency, coordinate marketing across the group and position CPI for expansion as a distribution company,' Mr Harry said.

Integration means all four business units will be represented in each CPI office in Australia and New Zealand, positioned to leverage off each other to maximise client coverage and growth prospects.

HIGHLIGHTS

- > INTEGRATION COMPLETED IN MELBOURNE
- > NEW SYDNEY WAREHOUSE UNDER CONSTRUCTION
- > WORLD LEADING IT SYSTEM INSTALLED
- > CPI A DISTRIBUTION BUSINESS
- > E-COMMERCE CAPABILITIES ENHANCED.

NEW LOGO

In keeping with the ideas behind CPI's evolution into a distribution company, CPI has established a new corporate identity. Ripples emanating from a drop splashing into water indicate the widening reach of our distribution capability.



PRINTED ON SILKMAT 7085M ON A KOMORI PRINTING PRESS USING HOSTMANN STEINBERG RAPIDA INTENSIVE 7080 SERIES INK

BENEFITS OF INTEGRATION

Integration of CPI Paper, CPI Graphics, CPI Trading and Raflatac Oceania in each of CPI's offices will deliver immediate and longer term benefits for the group.

Among these are:

- > cost savings
- > improved competitiveness
- > integrated marketing
- > better service
- > streamlined distribution
- > national coverage
- > comprehensive technology
- > diversified capability
- > e-commerce potential.

An important consequence of integration is that CPI will have the lowest cost structure of any distribution business in the printing and graphic arts industry in Australia.

Centralisation of core business units will deliver higher efficiency levels and productivity.

This will occur right across the organisation and in turn, improve the competitiveness of CPI in markets which are becoming increasingly global in nature.

Integration will mean being able to service customers better and maximise the potential to cross sell products to clients.

'CPI customers are becoming used to receiving single truck deliveries of paper, ink, plates, press chemicals and even machinery spares,' Mr Harry said.

The new facilities at Braeside will give customers a feel for the whole CPI business by showcasing new machinery, technology and group products all in one area.



Efficient product delivery and distribution is the result of integration.

Bringing the integration process together is a new IT system which has been progressively installed across all business areas.

The system is already leading to improvements in inventory control, sales analysis and business reporting, as well as establishing a platform for e-commerce opportunities.

IT SYSTEM DELIVERS

A critical element of integration for CPI has been to ensure that information technology matches the vision of bringing together the four group businesses and enhancing of a distribution capability.

Over the past twelve months CPI has progressively upgraded its computer hardware, software and network systems to support existing operations and provide a secure foundation on which to build new business.

A detailed analysis of software packages has led to the selection of a Swedish system, called Movex.

Movex is one of the largest selling enterprise resource planning packages in the world, having been adopted by over 3 500 companies globally, with CPI being one of the first in Australia.

A feature of Movex is its ability to adapt to constantly changing relationships with customers, suppliers, business partners, wholesalers and retailers.

An attractive application for CPI is Movex's link with RF, or radio frequency technology.

This makes automated warehousing possible, with bar codes used in conjunction with portable radio frequency

terminals to achieve robotic picking and packing.

The end result is more accurate sales forecasts and advanced inventory management.

Movex provides scope to build on a core system with other elements of the package including:

- > flexible reporting of activities
- > integration of a sales and marketing system
- > electronic data interchange with business partners
- > an Internet connection orientated to sales completion.

Initially CPI will utilise about 50 per cent of the system's capability, leaving room for the business to grow substantially within its boundaries.

ADVANCING ON SYDNEY

The final component of the integration of CPI's businesses will fall into place when a new warehouse facility in Sydney is completed.

In addition to integration, the advanced nature of the facility and its operation reinforces CPI's positioning as a distribution business with an extended capability.

This state of the art warehousing and distribution facility is currently under construction on 5.1 hectares at Wetherill Park, west of Sydney.

The high rise warehouse will be the location for all four CPI businesses including the Hostmann Steinberg ink mixing facility, plus ample land set aside for future growth.

A facility of this type is a first for the printing industry in Australia and also positions CPI to capture market share in the distribution of a wider range of goods and services.

An advanced ordering and dispatch system, achieved by a combination of information and radio frequency technology as well as the design of the facility, results in a significant improvement in warehousing efficiency.

While the chief beneficiaries are existing customers of CPI, the ultimate value of the facility is in the platform it establishes to enhance CPI's credibility as a modern distributor.

The logical development of e-commerce is utilisation of a modern capability to fulfil orders and distribute them. While this is an idea of the future for CPI, it is illustrative of the potential that modern warehousing can offer.

CPI's new facility in Sydney is on track to be completed by March/April 2000.

CROSS MARKETING OPPORTUNITIES ACROSS CPI'S CORE CLIENT BASES

	CPI PAPERS	CPI GRAPHICS	CPI TRADING	RAFLATAC
Printing Industry				
Printers	■	■	■	■
Graphic designers	■	■		■
Advertising agencies	■	■		■
End users	■			■
Industrial				
Major resellers			■	
Major multi-outlet			■	
National companies			■	