

ASX RELEASE

FRIDAY, 24 OCTOBER 2008

ARTICLE POSTED ON SMH.COM.AU AND THEAGE.COM.AU (23 OCTOBER 2008 12:00PM)

City Pacific Limited (City Pacific) is committed to open and transparent communication with our shareholders and unitholders of City Pacific First Mortgage Fund ("Fund"). It is critical that information available to unitholders, including through the media, be accurate and comprehensive. A report published on The Age and Sydney Morning Herald websites yesterday at 12:00pm contains a number of serious inaccuracies. City Pacific was not contacted to validate the information prior to publishing. The report however demands factual correction which City Pacific presents as follows for the benefit of our unitholders.

COMMENT IN THE ARTICLES	CITY PACIFIC RESPONSE
<p>The legion of small investors stuck in City Pacific's mortgage fund should reject the swap proposal put by management, call in an administrator, put the thing under as quickly as possible and distribute whatever is left over.</p> <p>Those who are unlucky enough to own shares in the parent company also, into which management is trying to switch FMF unitholders...</p>	<p>There is no "swap proposal" or "switch" proposal being offered or suggested to unitholders.</p> <p>We consider the suggestion "to put the thing under as quickly as possible" to be a reckless statement particularly given the current market conditions.</p>
<p>To allow this questionable mob to trade on any longer is merely to allow Commonwealth Bank to clear up on penalty interest rates, Phil Sullivan and City's discredited management to rip out more lush fees, and their property developer mates to stay on the funding drip, all while asset prices are falling.</p>	<p>This statement is being reviewed by our legal representatives as it contains statements of a defamatory nature.</p>
<p>The [per unit] figure may be 50 cents to 80 cents in the dollar...</p>	<p>The unit value at 30 June 2008 based on audited financial statements was \$0.94. The unit value at 30 September 2008 was \$0.97.</p>
<p>However, the latest published "average variable interest rate" on the bank debt is 11.16%. As this is an average, we can assume that it is now higher than 11.16%</p>	<p>The article refers to the variable interest rate being paid by the Fund on its existing bank facility. As it stands the Fund's current average variable interest rate is less than 11.16%. The assumption is incorrect and considering interest rates have decreased since 30 June 2008 and indications are that they will continue to decrease the statement is false and misleading.</p>

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<p>We are assuming here ... that City's property valuations can be trusted. And we are assuming that no more impairment charges will be taken.</p>	<p>All loans made by the Fund (assets) are subject to valuations conducted by independent approved valuers who must be authorised under the law of the State or Territory where the valuation takes place and have at least 5 years continuous experience in valuation.</p>												
<p>There are 880.3 million \$1 units. An impairment charge of \$53 million has already been taken which gives a closing balance of \$827.3 million. Strip out CBA's debt of \$121.5 million (it would be higher now, that was on September 25). If impairment charges - and this is being charitable - are worth 6 cents per unit and the CBA debt is worth 14 cents per unit, then there is 80 cents per unit of value left in the fund.</p>	<p>This statement in the article incorrectly interprets the Fund's audited financial statements.</p> <p>The financial position of the Fund, as disclosed in the audited financial statements for the year ended 30 June 2008, is summarised as follows:</p> <table data-bbox="794 824 1311 1077"> <tr> <td>Total Assets (after impairment)</td> <td style="text-align: right;"><u>\$969.4 million</u></td> </tr> <tr> <td>Less:</td> <td></td> </tr> <tr> <td>Bank facility</td> <td style="text-align: right;">\$129.6 million</td> </tr> <tr> <td>Payables</td> <td style="text-align: right;"><u>\$12.5 million</u></td> </tr> <tr> <td>Total Liabilities</td> <td style="text-align: right;">\$142.1 million</td> </tr> <tr> <td>Net Tangible Assets</td> <td style="text-align: right;"><u>\$827.3 million</u></td> </tr> </table> <p>As at 30 June 2008 there were 880.3 million units on issue which equated to a Net Tangible Assets value per unit of \$0.94.</p>	Total Assets (after impairment)	<u>\$969.4 million</u>	Less:		Bank facility	\$129.6 million	Payables	<u>\$12.5 million</u>	Total Liabilities	\$142.1 million	Net Tangible Assets	<u>\$827.3 million</u>
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<p>City advertises to get peoples' savings into its fund then on-lends the money to either its own property development operations in the parent company and elsewhere, and to property developer associates, at a higher rate.</p>	<p>City Pacific Limited has never borrowed funds from the Fund in its own right. City Pacific has, from time to time, in joint venture borrowed from the Fund. In respect to these joint venture companies City Pacific holds no more than a 50% interest as disclosed on page 21 of the Fund's audited financial statements for the year ended 30 June 2008.</p> <p>The global lending model used by all commercial financiers is similarly based on the premise that an institution lends funds at a higher rate than the institution pays for those funds.</p>												

COMMENT IN THE ARTICLES	CITY PACIFIC RESPONSE
<p>It makes money on the "spread", apart from reaping \$38 million in funds management revenue last year (at a time when the funds were frozen), it booked \$23.6 million in "rendering of financial services".</p>	<p>The article incorrectly attributes the \$23.6 million City Pacific earned through the rendering of financial services to its management of the Fund.</p> <p>In fact, these earnings are completely unrelated to the Fund and relate to City Pacific's mortgage broking businesses.</p>
<p>The interest which they receive from developers is less than the 11.16% interest payable [to the bank] on the debt in the mortgage fund.</p>	<p>As disclosed on page 25 of the Fund's audited financial statements for the year ended 30 June 2008, the actual effective interest rate charged to borrowers for the year ended 30 June 2008 was 12.27%.</p>
<p>The biggest loan was \$188.4 million to Martha Cove, a flash development on the road out of Melbourne to Portsea, and a related party. Related parties, in fact, accounted for \$336.7 million of FMF loans at June 30.</p>	<p>There are 18 loans totalling \$188.3 million secured by properties located at Martha Cove.</p> <p>Of these loans, 13 loans totalling \$100.8 million are to unrelated parties.</p> <p>Therefore, City Pacific's related entity loans secured by properties at Martha Cove total \$87.5 not \$188.3 million as the article contends.</p> <p>As disclosed on page 21 of the Fund's audited financial statements for the year ended 30 June 2008, loans to related parties totalled \$255 million not \$336.7 million as the article contends.</p> <p>City Pacific Limited's interest in these loans was \$88.3 million which represents indirectly less than 10% of the borrowings from the Fund.</p>
<p>Which brings us to the next point: capitalised interest. Instead of making interest payments every month, as you would do under a normal loan arrangement, most of the City developers don't pay interest.</p>	<p>It is standard industry practice for interest to be capitalised (or included in the borrower' loan facility) on development loans (normal loan arrangements).</p> <p>This practice applies whether the loan is provided by a top-tier bank or a mortgage fund.</p>
<p>The loans are rolled over. The interest goes on top. Some are second mortgages with high-risk rates of 20% or more.</p>	<p>The First Mortgage Fund holds registered first mortgages over properties and as noted above, the effective interest rate charged to borrowers for the year ended 30 June 2008 was 12.27%.</p>

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They should be forced to restate their profits like ABC Learning.	The financial statements of both City Pacific and the Fund are prepared in accordance with the Corporations Act and Australian Accounting Standards and are subject to half year review and annual audit by KPMG.
Even on the impairment charge, the principal was \$33.3 million and the capitalised interest \$19.7 million. If they didn't capitalise that interest they would not have dusted that \$19.7 million which, incidentally, was dusted mostly outside the Gold Coast.	Since 30 June 2008 City Pacific has, through its continued effective management of the impaired loans, clawed back approximately \$8.7 million of the \$19.7 million interest impairment.

City Pacific as founder, manager and Responsible Entity for the Fund continues to manage the loan portfolio in the best interest of our unitholders to ensure that the capital value of their units is protected especially in this time of unprecedented market turmoil.

City Pacific Limited

Phil Sullivan

Managing Director & CEO