

The Manager
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CITY PACIFIC LIMITED (ASX: CIY)

MARKET UPDATE

City Pacific provides the following update in respect of current market conditions and their impact on the Company's FY08 operations.

FY08 forecast results

City Pacific advises that FY08 operating earnings of between \$30 million and \$35 million¹ net profit after tax is forecast, prior to any potential write downs that may result from the impact of the market conditions and the asset review as detailed in this announcement.

Market conditions

The sustained deterioration of financial market conditions over the 2nd half of FY08 has been reflected in the continued strain on financial stocks. City Pacific's core business operations focus on the financial services sector resulting in an exposure to the effects of the slowing global economy and credit tightening.

The circumstances of the current global economy have brought about:

- a slowdown in domestic and international economic activity;
- a significant decrease in the availability of capital;
- an increase in the cost of capital;
- decreased housing affordability; and
- extreme volatility in the share market.

Due to these exceptional market conditions, City Pacific has been and continues to undertake a strategic review of operations, its property and other assets and gearing levels in a process designed to strengthen the Company's financial position. This consolidation phase will, in due course, provide the Company with a platform from which it will take advantage of opportunities that will inevitably arise out of the volatile market conditions.

Dividends

The Board of City Pacific has made the decision that a final dividend will not be paid for FY08. This prudent decision was made with consideration to the following factors:

- the on going deterioration of financial markets;
- the Company's strategy to focus on reducing its gearing level; and
- to allow for the completion of the Company's consolidation phase.

The Directors believe shareholders would agree that in the current market it is in the best interest of shareholders and the Company to take this course of action.

¹ Excludes non-operating profits/losses and is subject to finalisation of full-year audited financial statements and acceptance by the Board.

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Asset review and realisation program

In response to the tightening of credit and rising cost of capital, City Pacific considered it necessary to undertake an asset realisation program to divest certain assets in order to decrease the Company's gearing which is currently 32% of total assets. A decrease in the Company's gearing will avail it to opportunities and shield it from the effects relating to the current market conditions associated with credit and capital.

The first stage of the asset realisation program has seen City Pacific enter into contracts to sell its Townsville assets, being Breakwater Marina and its rights to the Townsville Future Development Area. These transactions are expected to settle in July and will result in the retirement of approximately \$30 million of debt.

City Pacific continues confidential and commercially sensitive negotiations with a range of parties who have expressed interest in several of the Company's other assets. In line with continuous disclosure obligations, City Pacific will update the market once any potential transactions crystallize.

Through the strategic review of its non property assets, City Pacific has determined that certain adjustments to carrying values of these assets may be necessary. These potential write downs centre on intangible assets such as goodwill and property related investments such as City Pacific's investments in CP1 Limited (ASX code: CPK) and Indigo Pacific Capital Limited (ASX code: IPA).

City Pacific is currently working with its advisors and auditors to determine the expected financial impact of these adjustments and will be in a position to inform the market after the end of the financial year.

Funds management: City Pacific First Mortgage Fund (the Fund)

The tightening of global credit compounded by the negative market sentiment towards the mortgage fund sector caused redemption levels by investors in the Fund in early March to exceed those forecast under normal operating conditions.

As a result of the redemption requests exceeding those forecast, the Directors of City Pacific Limited, the responsible entity for the Fund, resolved to defer the payment of redemptions from the Fund by up to 180 days. This decision was made by the Board to ensure the preservation of quality and value of the assets in the Fund.

A consequence of the deferral of redemptions was that the Fund ceased to accept new investments from retail investors thereby impacting its ability to write new loans and reducing City Pacific's earnings from loan establishment fees. The availability and rising cost of capital has seen a second half slowdown in the repayment of loans to the Fund, which has in turn impacted the timing of the Fund's reduction of its debt facility.

In light of the difficult market conditions City Pacific's management team have balanced the interests of investors, commitments to borrowers and the Fund's obligation to reduce its financier's bank facility. This balance is represented by the following achievements:

- the continued payment of monthly and quarterly distributions to investors;
- the continued funding of ongoing obligations to existing borrowers to allow for the completion of projects in their ordinary course; and
- the reduction of the Fund's bank facility from \$240 million to \$130 million representing a gearing level for the \$1 billion Fund of 13 percent.

CEO Mr Sullivan stated "City Pacific remains focused on preserving the quality of the Fund's assets through the effective management of the Fund's loan portfolio. Research shows that despite the sluggishness in the wider market residential developments located in South East Queensland have continued to perform well due to this market being driven by sound fundamentals, such as continued population growth."

City Pacific stands behind the strength of the loan portfolio for the Fund which comprises quality projects primarily located in South East Queensland where the property market and population growth figures remain strong.

Investments in property associated companies: CPK and IPA

City Pacific holds 30.6% of CPK and 26.8% of IPA.

CPK has previously contributed to City Pacific's property segment results through sales at its Martha Cove development on the Mornington Peninsula in Victoria. CPK recently announced a forecast break even result for FY08, emanating from a slowdown in the market and the settlement of sales at Martha Cove. City Pacific has therefore not included a contribution from CPK for FY08.

The current share prices of both CPK and IPA are below the carrying values at which City Pacific has these investments recorded on its balance sheet. Although City Pacific considers the carrying values of these investments to be appropriate based on the high quality of the underlying assets, certain adjustments may be required in line with the Australian accounting standards, even though such adjustments may only be temporary. City Pacific will be in a position to determine the financial effect of these adjustments after the full year audit.

Financial Services: Residential and commercial mortgage broking and management

The global credit crisis has had a significant impact on the overall performance of the residential and commercial finance industry with the Australian mortgage broking and non-bank sectors being particularly volatile. The increased cost of funds has made it difficult for non-bank lenders to source funds at rates competitive with the major banks which has increased the banks' dominance in lending with their share of new housing loans reaching their highest level in 13 years. This coupled with a significant decrease in the availability of funds will have an impact on the quantity of loans settled by City Pacific's mortgage management business.

Concerns about housing affordability and interest rate rises have eroded consumer confidence and contributed to an overall reduction in the level of financing being sought by consumers. This has further impacted the mortgage management business and reduced the volume of loan enquiries made through the Company's broker network.

As part of its asset review, City Pacific has determined that the goodwill value attributable to the financial services businesses may require adjustment and City Pacific will be in a position to determine the financial impact, if any, after the end of the financial year.

Outlook

CEO Mr Phil Sullivan stated "The exceptional market conditions have presented a challenging year for City Pacific, our investors and our shareholders and we recognised the importance and the need to reduce, what is normally considered low gearing, even further in both City Pacific and the Fund."

"We have implemented a program of debt reduction which we continue to pursue in co-operation with our financier. In respect to City Pacific this program is being achieved through the divestment of certain property assets and in relation to the Fund through the repayment of loans by borrowers in the usual course of its business."

"Our management team and Board remain focused on reducing debt, strengthening the Company's financial position and meeting the markets expectations of companies in light of the global credit crisis."

"Whilst the Company is focused on reducing its gearing level we are mindful of the opportunities that exist as a result of the current market and we will continue to consider those opportunities as they present themselves".

City Pacific Limited

James Finucan
Company Secretary