

CITY PACIFIC LIMITED
ACN 079 453 955
ANNUAL GENERAL MEETING 15 OCTOBER 2003
C.E.O.'S SPEECH

Introduction

Good morning ladies and gentlemen, and thank you for coming to our third annual general meeting as a listed public company. As Ian has outlined, the 2003 financial year, our sixth year of operation has been a year of exceptional growth for City Pacific, with the company now starting to reap the significant benefits of initiatives put in place more than two years ago. These initiatives include the geographic diversification into New South Wales and Victoria, the implementation of the City Pacific Private Fund and the listing of our 56% owned subsidiary CP1 Limited.

Our increase in profits for the year from \$4.1 million to \$12.47 was driven by a steady increase in funds under management coupled with our ability to safely lend these funds on attractive terms.

Our past success has been as a result of our performance and quality of service offered. We will not allow any changes to this as our business continues to grow. As it will!

Our Core Business Operations

The results for the past two years and our forecast for 2004 show that our business is a very profitable one. I would like to devote a few minutes to explaining our business in a little detail and why we think that events like an increase in interest rates or a softening in the property market will not adversely affect City Pacific.

The first thing to note is that we specialize in raising funds to lend on mortgage to the development industry and the company earns its income from a variety of service fees charged to borrowers.

Our investors from whom we raise our funds are attracted by above-average returns on their investments and the rate of growth in funds under management over the last five years shows that there is a high demand for our investment products. We believe that there is no reason for this to change in the foreseeable

future and that funds will continue to grow at an acceptable rate even if the property market slows.

The target market for our loans, the development industry, has in the past been funded almost exclusively by banks who are our main competitors. We believe that the strong acceptance by our borrowing customers, is based on the unique services that we offer and the fact that we specialize in this one sector.

Our management team are not only experts in financing of property and property development, but have many years of property development background.

We offer our borrowers quick decisions and settlements. We are also able to offer advice and practical assistance where required.

We will always be more flexible than our competitors primarily because of the size of our organization and our credit processes.

The City Pacific group offers an integrated service to our borrowers: we can offer financial solutions other than straight funding such as an introduction to an experienced business partner like CP1 Ltd.

This strong acceptance by developers has resulted in a steady stream of business that has underwritten our ability to lend our funds quickly and profitably. We do not suffer the problem that other Mortgage Trusts currently have of holding excess cash. We maintain ample liquid funds for redemptions and our day to day lending activities.

It is also worth noting that we have had no need to advertise for loans in the past. In 2002 – 03, the building industry started work on about \$47 billion worth of new residential and non-residential projects. This financial year, that figure is expected to drop to \$44 billion, largely in response to weaker demand from apartment investors and first-home buyers, but by 2005-06 the market is expected to move again, with total residential and commercial starts forecast to peak at \$54.6 billion, 16 per cent higher than the estimate for the 2002-03.

We are very satisfied with our lending book and within the industry, City Pacific now has a reputation as being a lender of note with about \$1.25 billion committed to professional developers. However, our approach to lending remains conservative and is bound by strict safeguards, which include significant presale requirements on development projects prior to advancing any development funds and advancing strictly on a cost to complete basis.

Our lending volumes have increased with loan approvals at consistent levels of around 15% of applications received. The majority of these approved applications are from existing borrowers or developers known to the lender.

As Ian has said, two years ago, we established the City Pacific Private Fund and fees from this mezzanine fund are now flowing through to the bottom line with lending amounting to about 10% of our book.

Property Sector

You will all be aware of the speculation surrounding the property sector, and the impact of any interest rate increase on the current market. Of course, as lenders to the property industry, there has also been speculation on what impact this will have on City Pacific.

I would like to stress that City Pacific does not rely on the booming profits of developers for its income. We earn our income from a variety of fees, but all are fixed in amount and payable before a developer takes one dollar of profits. In addition, we do in certain circumstances participate in a profit share arrangement.

While boom markets bring obvious opportunities, they also bring their problems. Whether it be the equities or the property market, in all boom markets, there is an influx of inexperienced players. It is these players who tend to be the first to suffer when the market turns. Please be assured that City Pacific does not have any exposure to these inexperienced developers through our loan book. In addition, we do not have any exposure to inner city unit developments. The vast majority of our loan book consists of quality, lifestyle developments where we believe any impact from a softening in the market will be negligible. This sector of the market we believe is not as sensitive to interest rate movements as say the first home buyer or investment unit market.

In a boom market, land prices and construction prices become uncontrollable. It is more difficult to set and realise margins when the property market gets too hot. The undeveloped land grab going on at the moment is setting future developed land prices and house and land packages at today's levels for quite some time to come, so we don't expect any dramatic fall in home prices in the foreseeable future, as has been mooted in some areas. Good operators always prefer a more orderly market and professional developers know that there are profits to be made in every stage of the property market cycle.

Cost Control

Our strong focus on cost control continues to add to the bottom line and we will maintain our focus on this front. The increase in revenues and the fixed nature of most of our costs resulted in our costs reducing from 35 percent of our revenues in 2002 to 21 percent this year – with our returns now among the highest in the industry. When we listed in July 2001, we stated that we believed that we could continue to grow funds under management without proportionate increases in costs for the foreseeable future. We still believe that our book can continue to grow and our costs can be maintained without proportionate increases, again, for the foreseeable future.

But this only succeeds when we have a capable and focused workforce, because staffing costs are traditionally a significant percentage of costs in our type of business. I am very proud of my staff who are an important element in the success of the company. Therefore I would urge shareholders to pass the special resolution to approve the Employee bonuses of up to 50,000 ordinary shares per annum that will shortly be put to the meeting. Under this resolution the maximum yearly bonuses will cost \$175,000 based on a share value of \$3.50 per share. It should be noted that directors are not entitled to participate in this plan and total cost of last years bonuses at todays share price is \$118,125.

OTHER OPERATING AREAS

CP1 Limited

City Pacific has a 56% share of listed company CP1 Limited. During the year CP1 increased its holding in Marina Cove Pty Ltd from 40% to 50% of the shares issued. Marina Cove is the developer of the prestigious Martha Cove development in Victoria, a canal residential development on the Mornington Peninsular with direct access to Port Philip Bay. Development work commenced on this project recently with the relocation of services. The completion of this initial stage will enable the start of construction on the underpass later this month.

Property Trust

The City Pacific Property Trust structure is in place. We have looked at a number of properties with the view to acquisition for the Property Trust but believe contributing our own developed product to the Property Trust is the preferred option for City Pacific at this point.

The Martha Cove Project is also expected to provide developed product for the City Pacific Property Trust.

Outlook

As Ian has just outlined, our projected budget for the medium term shows that even in a property slowdown, City Pacific will be able to significantly increase growth in Earnings Per Share.

City Pacific is now well positioned to enjoy sustainable profitability and growth as our unique, service-oriented funds management business matures.

We are committed to delivering long term shareholder value, and believe there are no impediments to our continued growth, irrespective of changing, short term economic conditions. However, we are not committed to operating any part of our business only for practice. This has meant we have not proceeded with the financial planning business or the factoring business as reported at our last A.G.M. In both cases we saw risks of unsustainable growth and decided not to proceed.

I am not one for looking back, but I recall the questions at last years AGM as to how we would cope with the expected property downturn. I recall our share price that day at \$1.50.

Today we are a much stronger and larger company as reflected in our share price of \$3.50.

We believe this coming year we will maintain our record of growth and results for our shareholders – I look forward to seeing you all next year.