CITY PACIFIC LIMITED

ACN 079 453 955

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CHAIRMAN'S SPEECH

Introduction

The 2003 financial year was another very successful year for City Pacific as we continued to build on the momentum of previous years by strengthening all aspects of our operations and through expanding our core business into new geographical markets.

City Pacific has once again achieved triple digit profit growth, with a net profit of $12.47 million on revenue of $22.7 million.

This record result is a 209 percent increase on the previous year and it is consistent with our past performance, when we have achieved a better profit than expected in each and every quarter since we listed on the ASX.

Our core funds management business continues to perform well. Today we have around $530 million in funds under management, and this figure is increasing by $30 million a month as our products receive an ever-greater acceptance in the financial services market. We expect the rate of growth to continue throughout this year, and to have more than $700 million under management by 30 June 2004. The majority of these funds are placed in the mortgage trust - one of three funds that City Pacific manages.

On the other hand, our lending is strong, and we are satisfied with our lending book and confident that our record of zero default losses will continue as a result of our conservative policies and safeguards. Phil will have more to say about this.

Two years ago, we established a mezzanine fund – called the City Pacific Private Fund – and fees from this fund are now starting to flow through to the bottom line. Mezzanine finance is typically subordinated debt that makes up the difference between the developers' equity and the equity that the developer requires to attract the main development loan at a low, competitive rate of interest. It is a high interest loan, and, by definition, ranks for repayment behind a prime lender – in our case the City Pacific Mortgage Trust that always lends conservatively on first mortgage. However many banks have introduced a practice of insisting upon a tranche of mezzanine funding in all but exceptionally strong lending contracts and so today mezzanine funding tends to be a normal incidence in development funding even where a borrower has a reasonable amount of equity.

Mezzanine funding now amounts to about 10 percent of our total loan book, but this facility has a much more significant impact on our profits. The fees from our mezzanine funding are now coming in regularly and we expect they will make a consistent and improving contribution to the company's profitability in the future.

Future Profit Outlook

Phil Sullivan will shortly talk about why we are confident of continued profitability even when the property market softens and interest rates rise.

Our confidence has been reflected in our forward projections and even though we expect there will be an easing in the property market, this will have minimal affect on the company.

Your company has continued its strong performance in the first quarter of this 2003-04 year, and we are on track to deliver our projected net profit after tax of $25 million for 2004, which is up by 100 percent on the result for 2003. This forecast result includes about $18 million of net profit from the company's core activities, and another $7 million from City Pacific's listed subsidiary CP1 Limited, as profits start to flow in from the Martha Cove development in Victoria.

Your directors are confident that the company will be able to maintain our current low cost to revenue ratio of around 20 percent and that City Pacific will be in a position to pay a dividend of 30 cents per share (fully franked) out of profits for the 2004 financial year.

Exercise of Options

I have said that the profit impetus of the company is unlikely to be seriously stalled by a softening in the property market. But earnings per share can also be adversely affected by the exercise of outstanding options that will increase the number of shares on issue from the present level of 64 million to 113 million by September 2006.

Given the likely dividends to be paid in the next twelve months, we expect that shareholders will choose to exercise their options sooner rather than later. Your directors would welcome the extra capital that this would bring, because we foresee the need in the next three years for further working capital of at least $40 million to fund our core funds management business including quality life-style projects that will earn high returns to the company. We expect that one such project will be settled in the next three weeks and will absorb additional capital of $30 million for up to a 2 year period.

In fact one of the management challenges over the next three years will be to influence the conversion of options in a timely fashion that will satisfy our need for extra capital and will so obviate the need for other capital raisings such as a rights issue.

Your company has extrapolated the affect on earnings per share of the conversion of options

In 2003 our earnings per share was 20.9 cents and in 2004 we expect earnings per share to grow by 75% to 37 cents. We predict that after all options are exercised in 2006 our EPS will be at least 45 cents per share that is more than double our EPS for 2003.

These figures should give investors comfort that an easing in the property market and the exercise of options will not stop the forward march of City Pacific or the growth in the value of our shares.

Share Price

Your shares in the company have grown in value at a spectacular pace since shares were subscribed for at one dollar each, were listed on the ASX in July 2001, and were later split into five shares each representing a nominal cost to subscribers of 20 cents each. For the reasons outlined in this report and the report by Phil Sullivan, your directors are confident that profits and earnings per share will continue to increase strongly. Therefore we are confident that there is considerable room for upside in the share price.

Here it should also be mentioned that the continued growth in value of shares is also important to your directors, particularly the two executive directors and the executive secretary, each of whom are substantial shareholders of the company, and each of whom receive modest salaries and no incentive-based remuneration package. May I suggest that this attitude of our executive staff is but one of the many that distinguishes your company from many others; for surely there are not many executives of other successful listed companies who are prepared to rank for their bonuses equally with shareholders!!.

But the point I wish to make is that the company and its Executive are very focused on paying healthy dividends and on increasing shareholder value.

The Management Team

In the Annual report I paid tribute to our outstanding visionary and Chief Executive, Phil Sullivan and the whole Management team. I am sure that you will agree that the results alone speak for the ability of Phil Sullivan, the other directors and the very capable team of people who work in the four City Pacific offices around Australia. Congratulations and thanks to you Phil and your dedicated staff.

Conclusion

Ladies and Gentlemen,

City Pacific has been one of the fairy tale listings of the twenty-first century, We have surpassed the expectations of our staunchest supporters, and still the outlook looks great. But we all know the uncertainties of doing business today and none of us knows exactly what is around the corner. Never the less we are confident that 2004 will be yet another bumper year for your company and that not even a cyclical adjustment to the property market will slow our impetus for the next few years and beyond.