

## **A DEFINING YEAR FOR CITY PACIFIC**

Good morning ladies and gentlemen, I would like to extend a very warm welcome to all of you at this, our fourth annual general meeting.

As Ian has just outlined, 2004, our seventh year of operation, was an extraordinary and special year for City Pacific.

2004 was a year in which we again saw the hard work of the past drive home results and be extremely positive to shareholder value.

Since listing in 2001, your company has delivered on every profit forecast and guidance figures and continues to out perform many other listed companies.

According to a BRW survey in March this year, we delivered the fourth highest percentage increase in market capitalization. This percentage increase, of course, comes on a comparatively low start base, but the results still stand.

At the end of the March quarter, we were also ranked 186 in the top 500 Australian listed companies with a market cap of \$400 million. We have no doubt climbed higher up the rankings with our market cap now around \$500 million.

City Pacific has never been compared with the “Millionaires factory” (Macquarie Bank) and we would not expect this. We do note however, recent comparisons in the press between Macquarie Bank and the newly listed Babcock & Brown, these comparisons

highlighted a few numbers – these numbers included the revenue generated per staff member for each of the two companies. Macquarie Bank - earned \$470,000 per staff member – Babcock & Brown topped this with \$890,000 for each employee – impressive figures and worthy of a mention in a number of national newspapers.

As shareholders of City Pacific you could do a quick calculation on where your company would stand in the “revenue per employee stakes”. The number would come in at an impressive \$3.6m earned for each person at City Pacific.

Our shareholders, the believers, have again reaped the benefits of another positive year. I use the word believers – because the doubters – or non believers, would put a negative spin on these numbers. They would say these earnings are achieved because of our relatively low staff numbers and we may lack a depth of talent. This may be a valid argument, but your company is a very young company – a company that has set a standard of business culture amongst management and staff. This business culture will not be changed as we grow and gradually increase our staffing, with similar minded personnel. Our cost cutting has already been achieved. We are already at the cost point where many other listed companies would love to reach. - Our point of concentration is now revenue growth, where each dollar earned will virtually all drop to the bottom line before tax.

During the course of the coming year you will see a continued expansion of our subsidiary network. These subsidiary companies do already and will continue to employ staff that have a depth of talent in areas of importance to City Pacific and who are more

than capable of supporting an expansion programme and succession plan for City Pacific without significantly impacting on staffing costs within your company.

In many ways, I believe that 2004 was a defining year for your company and flags its future potential.

Let me briefly refer to our scorecard showing where we are positioned today, compared to last year.

#### The result

City Pacific's revenue jumped a massive 159 percent to \$59 million, up from last years result of \$22.7 million.

This growth in revenue is attributed to increases in fees, generated from our loans primarily to the development industry. This growth is naturally linked to the amount of funds we have under management.

City Pacific has doubled its funds under management each year for the past three years and we are understandably proud of this considerable achievement. We now have over \$900 million under management, and the target of achieving \$1 billion under management by the end of the calendar year is clearly within our grasp and will no doubt be achieved. We believe this book will double to \$2 billion within the next three years with continuing growth of \$30 million per month.

The majority of the growth has come from the company's flagship Mortgage Trust which makes up around 96 percent of the funds under management, with the private mezzanine fund making up the remaining 4 percent.

Net profit after tax jumped 251 percent to \$43.8 million from \$12.47 million last year. That's an enormous step up for your company, and while the result includes a one-off gain of \$8.3 million from its investment portfolio, it still shows an impressive jump of 184 percent attributed to the company's day-to-day financial services business.

The company's earnings per share leapt 131 percent to 48.3 cents from last year when EPS was 20.91 cents. This gain was achieved despite the increase in issued shares from about 62 million last year to about 91 million at 30<sup>th</sup> June 2004.

On the back of this growth, we have paid record dividends for shareholders with a full year fully franked dividend of 33 cents. This is an increase of 120 percent on the prior year dividend on almost double the issued shares.

### Business philosophy

The overriding philosophy behind everything we do is to create long term value for our shareholders and our unit holders – it is central to every decision that your board makes and it is something that we take very seriously.

Whether it is diversifying into a new business or expanding our shareholder base by placing parcels of options, every project that we embark on and every investment that we consider is aimed at strengthening your company and building on the core of our achievements to date.

We will not stand in the tender queue willing to overpay – our first offer is always our best offer.

We are always careful with our expenses and this is clearly indicated through our efficiency ratio, showing the cost of doing business compared to total revenue received. This ratio now sits at 12.4 percent, making City Pacific one of the most efficient companies on the ASX today. This is not a one-off achievement; this efficiency was outlined in our prospectus in 2001 and the board expects this sort of ratio will be maintained in the current year, with forecasts of costs around 12.5 percent of revenue.

We still operate debt free however we now have an offer of a standby debt facility of \$35 million from the Commonwealth Bank to support the Mortgage Trust liquidity which is generally maintained at 5% of our total book value.

#### Perception of our business

Despite all our achievements over the last 3 years since listing – I wonder how well understood our business is outside our loyal shareholder base. I have seen our company

referred to as a “mezzanine lender to the riskier end of the development market”. This shows a total misunderstanding of our business. Our mezzanine loans through the Private Fund total 7 in number representing, by value – less than 5% of our book. Generally these loans are secured by second mortgage behind our own first mortgage and as such – do not have a hostile first mortgagee.

We are not unique in offering mezzanine funds to our borrowers – all major banks offer the same facility. The strong acceptance of our product by our borrowing customers is based on the service that we offer and the fact that we specialize in one sector.

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

We have stated that we lend to professional property developers who become repeat borrowers. This does not mean that every deal from our regular borrowers is approved – most of our borrowers have seen us decline deals that do not fit within our credit guidelines – we are happy to see other institutions, including the major banks – accept these deals and proceed to fund them.

Our business has operated without a capital loss in its lending activities since commencing business in 1997 – an achievement any lending business can aspire to.

Despite record earnings and increased revenue and profit forecasts our shares are listed as trading at 7.5 times current earnings – about half the average for our sector.

This year will see us beginning to strive to get our story out to the market analysts and have our business model better understood. We believe this will lead to a re-rating of our stock and should allow significant increases in our share price.

## Investment portfolio

City Pacific is strong, lean and focused. Your company is in as good a shape as it has ever been and we believe we are only on the first rungs of the growth ladder with our business model.

There is new momentum building in City Pacific. And that momentum is coming through a string of prudent investments which we have bolted onto the company's core business.

City Pacific now has a portfolio of investments - they include CP1 Ltd in which we hold a 55 percent interest; Indigo Pacific Capital Ltd where we have a strategic 25 percent interest and financial services group Terrain Australia Ltd where we hold 9.6 percent. Altogether, our investment portfolio marked to market is valued at \$80 million. Total cost of acquisition is less than \$3 million.

We liken CP1 Ltd to a sleeping giant. City Pacific formed CP1 in 2002 and it is listed on the ASX in its own right. CP1 has two major projects – they include the \$650 million Martha Cove development in Melbourne and the very exciting Mercure site development at Budds Beach on the Gold Coast which has been valued by our joint venture partner Sunland Group at around \$1 billion.

City Pacific was a seed investor in CP1 and we expect to realise significant profit from our investment. The Martha Cove project alone is expected to return profit of between

\$90-\$100 million to CP1 Ltd over the next three years. This number is equivalent to \$5.40 per share and is in line with previous forecasts.

Martha Cove is progressing on track on all fronts – both in sales and also on the development side, with first significant profits expected to flow in this financial year. While CP1 has been quietly going about its business, we believe the growth potential of this company will start to be appreciated by the market in the not too distant future.

City Pacific has a strategic 25 percent stake in newly listed company Indigo Pacific Capital Ltd, where we have already seen significant growth in the share price.

The floating of Indigo Pacific on the ASX is a testimony to the ongoing positive support and belief of our shareholders and unit holders in our business model. We asked for your support and we received it – raising \$35 million and having to send back \$8 million in oversubscriptions. Your support is again being rewarded with the shares and options now trading at a significant premium to the one dollar listing price.

We expect great things from our investment in Indigo Pacific, which has already announced an expected net profit after tax of \$10 million on \$15 million revenue for this year.

#### Acquisition of S8 Ltd

Earlier this year City Pacific made a decision to enter the management rights business as we could see significant opportunities to quickly grow the business through our

development industry relationships. A decision was made to try to acquire both listed entities, Breakfree and S8. This decision resulted in an agreement with S8 only, to acquire all the issued S8 shares on a scrip for scrip purchase. The offer, after initially being recommended, was later rejected, when the target company statement was released on the grounds of a change in the capital structure as a result of the placement of options. As the directors of S8 have a controlling interest in the company – the bid could never succeed despite over 30% by number of shareholders accepting our offer.

We do not believe that the sale of options had any impact on the bid for S8. On the day we made the offer in July 2004 the City Pacific share price was \$4.56 cum a 23 cent fully franked dividend. The City Pacific share price closed at \$4.51 on Friday 15 October – the day the offer was due to close, after paying the 23 cent dividend on 30 September

We still believe and have confidence in the management rights sector and will proceed with our initial plans to enter the sector via our development industry relationships. This will include a joint venture currently under negotiation, which will give us access to outstanding product. CP1 product such as the Mercure site and Martha Cove will also be available. Other suitable projects being funded by City Pacific will be sourced on a first right of refusal basis...

#### Sale of options / Freefloat

The board of City Pacific has a stated aim of being considered for inclusion in the ASX 200 list and to this end we have been actively focused on increasing our free float market capitalization – or the portion of the company which is available to be traded freely, and

not held by majority shareholders. This strategy has seen the placement of directors' options and the free float of City Pacific now sits at 61 percent. With the remaining 39 per cent still controlled by the directors and management.

Largely through the sale of options, we have increased the number of shareholders from 1,171 in October last year to over 5,800 today. An increase of 395%. Our shareholders now also include a number of institutions.

At last year's AGM when we said that we expected to double 2003's dividend in 2004, we were asked if this took into account the exercise of options. We answered that our forecast assumed all options would be exercised. In fact we increased our dividend by 120% with 110 million shares on issue compared to 62 million last year.

There is no longer any confusion in the market place regarding our market capitalization or likely dividend payments resulting from the overhang of options.

In the interests of openness and full disclosure the sale of the options was best done while the S8 offer was still on the table rather than after S8 shareholders had made their decision.

#### Property market

The property market, like any market is cyclical - there are peaks and there are troughs and I am sure we have all seen a few of both. There have been mixed messages on the

severity of the downturn and in certain areas we are now seeing forecasts of a property recovery.

At last years AGM the question was raised about the property market and the effect a downturn will have on City Pacific.

Last year saw two interest rate increases and a slowdown in the residential market – We believe our record results over the last year – bear testimony to our ability to deliver results to shareholders in all phases of the property cycle.

We stressed that professional property developer’s work through all phases of the cycle – and in fact, we believed and stated that a more realistic property market would be beneficial to all players in the sector, including City Pacific. This has not been more evident than over this last year.

## Outlook

Can we continue to deliver – of course we can – money doesn't go out of fashion – so our above average returns paid to investors will retain and grow our investor base. The borrowers we have represent a very small slice of the development industry pie – We can grow the demand for our product at will, our costs are already under control and we do understand our business – our record speaks for itself.

Looking forward, we expect City Pacific to continue to grow both organically, and where necessary by acquisitions. We are currently negotiating on a number of fronts, these include the management rights joint venture, and a retirement industry joint venture. These negotiations are with parties well known to City Pacific and are existing clients. We expect both deals to reach settlement.

We have the structure in place for a Property Trust; and operations will commence when suitable properties come on line, with the most likely product being sourced from our subsidiary developer CP1 Ltd.

I look forward to seeing you all next year and thank you for giving up your valuable time today.