

## **PHIL SULLIVAN – OPERATIONS REVIEW**

### **WITH PRESENTATION SLIDES**

Good morning ladies and gentlemen. This morning I would like to give an outline of the environment in which we operate an overview of the results, take you through the new business operations of the company and talk about how our restructure will impact on the business of City Pacific. Then I would like to give you some insights into our expectations for the results this year.

To begin, I would like to take you through the key points of the results.

We achieved our initial forecast net profit after tax of \$58.3 million, an increase of 33 percent from \$43.8 million last year. This number was achieved despite missing a forecast target from subsidiary CP1 and experiencing reduced net inflows of funds during the second half of the year influenced by the withdrawal of the “on call” facility in the City Pacific Mortgage Trust.

Our revenue was up 181 percent to \$166 million and dividends of 45 cents per share fully franked were paid to shareholders, an increase of 36 percent on the previous year. These results have not been reflected in the share price with dividend yields currently at around 12 per cent fully franked.

City Pacific has always kept a close eye on costs of running its business, with the cost to revenue figures consistently less than 15 percent for the life of the company. While expansion of your company means that by necessity costs also increase, the corporate restructuring will ensure that we are able to deliver optimum use of our resources.

Despite adverse market conditions and unexpected events we have delivered a great result for City Pacific demonstrating the strength of the core business, which has continued to grow through a period of reorganization.

## **OUR OPERATING ENVIRONMENT**

City Pacific is a diversified financial services company which aims to provide competitive lending, targeting the property development market, and investment products, offering above average returns.

Our operations are entirely domestic, so the Australian economic conditions have an important impact on our financial performance. The outlook for the domestic economy remains very strong and interest rates expected to remain stable, with unemployment and inflation numbers at historically low levels.

The property sector has seen its widely touted soft landing, and at City Pacific we have an on-the-ground view of where the property sector is at, especially in our preferred lending market – the leisure and lifestyle segment which we regard as particularly robust.

Respected demographer, Bernard Salt, has recently noted five property hot spots in his latest document “Australia on the Move”. These are areas which are expected to outperform over the next 25 years and it is interesting to note that four of the five hot spots are in Queensland including the Gold Coast and the Sunshine Coast – areas which Bernard Salt says will become Australia’s new cities of the 21<sup>st</sup> Century.

On the Gold Coast the number of dwellings are expected to grow by 8000 per year to 2010 and then grow by 7000 per year during the 2020s. This is good news for City Pacific which is a major player in the south east Queensland region with around 60 percent of our development lending in this growth area.

We are therefore in a very stable position, poised for business growth in our core business of financial services, with any uncertainties about the property sector mitigated by strong geographical performance expected in areas where we lend our funds.

## **ORGANISATIONAL RESTRUCTURE**

Ian has touched on the organizational restructure of City Pacific, which we have implemented to assist the company in its growth ambitions. I would like to explain the new structure, which sees City Pacific divided into three core business units, giving the company the benefit of diversified revenue streams going forward.

They are:

- Funds Management
- Financial Services and
- Property

Each of these business units will have its own strategic plan and key performance indicators with an experienced group executive accountable for the unit's performance.

## **FUNDS MANAGEMENT**

The growth of City Pacific is underpinned by the growth of its funds management.

The funds management division is responsible for:

- City Pacific Mortgage Trust (\$922 million)
- City Pacific Private Fund (\$35 million)
- Treasury Mezzanine Portfolio (\$23 million)
- Institutional funding lines (\$950 million)

## **Mortgage Trust**

The City Pacific Mortgage Trust has the distinction of being one of the top 10 mortgage funds by size in the industry with our range of investment options and above market income yields providing a point of differentiation for investors.

The Mortgage Trust enjoys a clean book with non performing loans standing at less than 0.5% of the book at the 30<sup>th</sup> June. Currently that number has been reduced to less than 0.05%.

We have forecast a growth in funds under management in the Mortgage Trust to \$2 billion by December 2007, driven by increased marketing and distribution through our branch retail outlets and financial planning groups. Our strategies to grow the Trust include sourcing additional funds from institutions as well as having the City Pacific Mortgage Trust independently rated which will open up a whole new market through financial advisers.

## **Treasury Group**

The Melbourne based Treasury Group of Companies was acquired in February this year. This group specializes in commercial mortgage origination and funding relationships with institutional investors. Treasury Property Finance manages over \$750 million in mortgage assets on behalf of banks and institutions. It also manages a mezzanine loan portfolio targeted at high net worth investors which totaled \$23 million at year end. In addition the acquisition of Treasury brings to the group over \$350 million of property projects via its syndication and structured finance activities.

Michael Iacobucci who comes to us via the aquisition of the Treasury Group has over 15 years of fund management experience and is our new group executive in charge of the funds management division.

## **FINANCIAL SERVICES**

A number of clear trends have emerged during the last ten years within the financial services arena, including consolidation, through a number of wealth management acquisitions by major groups. Financial institutions have become more focused on maximizing value and on growing networks. Everyone is trying to win ownership of the customer by increased cross selling.

City Pacific will concentrate on developing its cross selling capabilities within our financial services division. We aim to achieve this by developing a suitable network of outlets and the recent acquisition of Terrain Australia – now rebranded as City Pacific Finance – offers us the perfect vehicle for this further expansion without significant outlay to the company.

The financial services division is made up of:

- City Pacific Finance and
- City Pacific Transport Finance.

### **City Pacific Finance**

City Pacific Finance was born from the takeover of Terrain Australia Limited which was completed in January 2005. The division's motto is "right loan, right now" which reflects our business model of providing the most competitive loan to our customers.

The success of this approach was recognized recently with the awarding of the Franchise Operation of the Year by the Australian Mortgage Awards.

Overall, the lending market remains competitive with the home loan market experiencing margin and volume pressures. We believe our market positioning will support continued growth with the residential mortgage trail book standing at over \$3 billion at year end.

City Pacific Finance currently has over 40 offices with plans to expand that number significantly within 12 months, offering a valuable outlet to cross sell our financial service products.

During the year City Pacific acquired a 14% interest in Calibre Financial Services, a specialist residential wholesale mortgage business. Calibre is focused on becoming an independent provider of securitization services which will accelerate the launch of a City Pacific branded home loan product.

### **City Pacific Transport Finance**

City Pacific Transport Finance enjoys a diversity of income streams operating one of the largest plant and equipment brokerage operations in Australia, which include brand names such as Mack Finance and Iveco Finance.

The financial services division will be headed by Group Executive, Kym Dalton, who is a pioneer of Australia's non bank mortgage securitization industry and formerly the chief executive of Australian Mortgage Securities Limited.

### **PROPERTY**

The property management and development division is made up of:

- City Pacific Project Management
- CP1 Limited
- Indigo Pacific Capital Limited
- Grande Pacific Limited

## **City Pacific Project Management**

City Pacific Project Management provides comprehensive project management services to developers for large and complex projects. An example of this is the \$1 billion Townsville Cruise Ship Terminal and the residential development the \$650 million Martha Cove development in Victoria.

City Pacific Project Management is also managing the \$54 million Jupiters Casino extension and the design and construction component of the Tabcorp bid for the Singapore Casino licence.

City Pacific Project Management looks specifically for projects where we can add value and there are many exciting opportunities available to this high level team. Peter Trathen, group executive property, heads up the City Pacific Project Management team.

## **CP1 Limited**

City Pacific owns 52 percent of CP1 Limited which is a property developer with a number of projects including the Martha Cove project in Victoria, the Budds Beach project on the Gold Coast and Lake Views Estate in Victoria.

Martha Cove is a major residential project which will provide a fantastic lifestyle product being developed on the Mornington Peninsula in Victoria. The development offers to Victoria the type of canal and waterfront development that South East Queensland is famous for. Sales in Stage 1 are now settling with about 90% of stage one sold. Stage two has already commenced selling with over \$40 million in sales contracts exchanged, and many more millions secured with holding deposits.

The underpass is now open with sea water flowing into the canal and western harbour. This has triggered settlements for the remaining sales in Stage 1, Lake Views Estate is a project to be developed in conjunction with Melbourne Property Developments which is in its early stages of development. Covering 29 ha of prime land in the south east of Melbourne, activity during the year has been focused on planning for an initial two hectare industrial development. A water themed residential development of up to 400

residences will follow as planning approvals become available. Marketing of the industrial project has started and completion of stage one is expected during mid 2006.

The Budds Beach project is a staged development initially comprising 2 residential towers. Construction is scheduled to commence in late 2006, with a targeted completion date of 2010. The existing 405 room hotel renamed Paradise Resort Gold Coast will be retained for development at a later stage.

### **Indigo Pacific Capital**

City Pacific owns 25 percent of Indigo Pacific Capital which during its first full year of operations, delivered on its guidance with a net profit after tax of \$10.2 million. The company is set to pay a 5 cent per share fully franked dividend payable in November and represents a sound investment for City Pacific.

You may be aware that I recently resigned from the board of Indigo Pacific Capital in a move to ensure greater independence of that board. However I remain available to advise the Board should they require my input.

### **Grande Pacific Limited**

City Pacific has a 50 percent interest in Grand Pacific Operations Pty Ltd which will develop and manage independent living aged care facilities. Grand Pacific recently settled on a block of land overlooking the Broadwater on the Gold Coast. Planning has now commenced for the development of the first independent living facility with construction expected to commence during 2006. Additional sites for possible development have been sourced and are currently being assessed.

## **OUTLOOK**

So in conclusion it has been a very challenging year for City Pacific but we remain very optimistic about the future and continue to see growth in our business.

Predictions for growth in Australia over the next 20 years are very encouraging. In the midst of what is generally described as a property market softening our business continues to grow with City Pacific ideally placed to take advantage of the expected hot spots of property growth.

Growth in our funds management business will be driven by increased marketing and distribution through our branch retail outlets and financial planning groups.

The financial services division will focus on the expansion of the City Pacific Finance franchise network from its current base of 40 outlets to substantially more outlets over the next 12 months, giving us an increased market penetration without significant capital outlay to the company.

In the property division we expect to reap benefits from our investments particularly CP1 Limited which is set to contribute significant profits over the next three years as the project rolls out. Budds Beach and Lake Views Estate will provide the next stage of growth as earnings commence in the 2007 fiscal year.

Indigo Pacific Capital Limited is set to diversify its asset exposure as future investments target the commercial and industrial sectors of the market

Over the next three years City Pacific Project Management is expected to manage projects with a total end value of over \$2 billion.

Our corporate restructure means that the individual aspects of our business will be able to outperform and we expect positive contributions from each of the three divisions this year.

This has been a year of significant progress for your company as we continue to generate further value for all of our shareholders and investors.

City Pacific is now able to offer investors guidance for the current financial year of achieving more than 10% increase in net profit after tax, enabling us to support a fully franked dividend at least equal to that paid in 2005.

Thank you and I would now call on the Chairman to address any questions. <ENDS>