

## **City Pacific – AGM 18<sup>th</sup> October, 2006 - Managing Directors Speech**

Good morning ladies and gentlemen. Today I would like to give an overview of the 2006 results and take you through the business operations of the company. I would also like to give you an insight into our expectations for this years results.

### **Financial Results**

The continued strength of our expanding loan book, further diversification of our product offerings and increased contributions from our associated companies underpinned another solid year of growth for City Pacific in the year to 30 June 2006.

Group revenue increased 95% over the prior year to \$325 million and net profit after tax increased 6.5% to \$62.1 million. Last years figures are before AIFRS adjustments. Funds Management operations contributed \$45.5 million to group profit, with our property divisions accounting for \$16.5 million. This result was achieved despite one-off expenses incurred by our funds management operations during the year and the substantial investment made in further building our organisational and human resource capability in order to elevate the company onto its next growth plane.

The company will pay a final dividend of 34 cents per share, resulting in a full year dividend of 45 cents. This dividend represents an extremely attractive yield of 9.5% fully franked on yesterdays closing price.

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

In accordance with new accounting standards, City Pacific is now required to consolidate both the City Pacific Mortgage Trust and City Pacific Income Fund. This consolidation resulted in the grossing up of both assets and liabilities, significantly changing the appearance of the balance sheet and certain financial ratios.

This slide shows the effect on the balance sheet had CPMT and CPIF not been consolidated by City Pacific.

## **Funds Management**

Your Company's funds management division enjoyed another solid year of progress, despite being faced with some challenging circumstances during the period under review. Total funds under management in City Pacific's four managed investment schemes increased 13% to \$1.081 billion. The City Pacific Mortgage Trust itself has in excess of \$1 billion.

The City Pacific Mortgage Trust is neither a mezzanine fund nor a debenture fund – I want to be very clear about this. The Mortgage Trust does not offer mezzanine lending nor does it offer unsecured debenture style investment products.

A cornerstone of our lending criteria is that all loans by the City Pacific Mortgage Trust are secured by registered first mortgage over the properties concerned and we maintain an average loan-to-valuation ratio of around 70%.

The City Pacific Mortgage Trust does not lend on 2<sup>nd</sup> mortgages. Adherence to our lending criteria resulted in non-performing loans remaining at an insignificant level, and we retain our position as one of the top 10 mortgage funds by size in Australia, with over 20,000 unit holders and a high level of repeat investment.

Our unit holders enjoy high returns - our shareholders enjoy high returns - our borrowers, professional developers – keep coming back with repeat business. We are not reliant on external originators for deal flow and rely on our own established network and mortgage managers for the Mortgage Trusts lending business. This business will again have in excess of \$800 million in loans repaid this year which represents about 80% of the loan book value and has been achieved over each of the last 3 years.

In an initiative designed to widen our funds management revenue base and increase our institutional presence, our subsidiary Treasury Group of Companies launched one of Australia's first commercial loan securitisation warehousing trusts in March 2006. Developed in conjunction with Westpac, the initial warehouse is \$200 million.

## **Residential and Commercial Finance**

City Pacific's Residential and Commercial Finance division which provides both mortgage broking and commercial finance solutions, operates through an extensive national distribution network.

In its first full financial year post acquisition, this division generated \$21.9 million in revenue. In what proved a transitional year for this division, significant one-off costs were incurred, including substantial employment termination costs along with a considerable investment in re-branding the entire franchise network of City Pacific Finance and Transport Finance. As such the division only achieved a break-even result before one-off costs and amortisation of intangible assets. Increased contributions to profits can be expected from this division after a solid start to this financial year.

During the year our residential lending business expanded its residential mortgage trail book to over \$3 billion, by writing in excess of \$1.154 billion of new residential mortgage loans. This growth was partly due to the opening of additional franchise operations, which increased our national network's representation to over 40 offices.

Transport Finance, operates one of the largest plant and equipment financing operations in Australia. This business executed over \$160 million in plant and equipment loans during the 2006 financial year. This year we intend to augment the division's scope of operations through the establishment of City Pacific Marina Finance which will provide a specialised lending service to purchasers of either free hold or lease hold marina berths.

Our aim over the year ahead is to further grow our Finance network's geographic representation through opening an additional 10 - 12 new franchise outlets and to have more of our own branded products on offer by year end such as the recently launched Citypac Home Loans.

## **Property**

Despite a relatively softer year for much of the national residential market, our property interests returned an excellent result in line with our expectations.

City Pacific's property development division maintains a direct or indirect involvement in nearly 7,000 lots for development in major, leisure-orientated property projects located in high-growth regions along the eastern seaboard.

City Pacific holds these interests by way of a stake in the following listed or joint venture vehicles;

- CP1 Limited (55.2% interest) - Listed
- Breakwater Pacific (50% interest) - J.V. Mirvac
- Grande Pacific (50%) - J.V. Protac / Hallmount
- Indigo Pacific Capital Limited (26.18% interest) - Listed
- Mirvac Pacific (50% interest) - J.V. Mirvac
- Hometown Geelong (25% interest) - J.V. Smorgens & Costa Family

### ***CP1 Limited***

Our investment in CP1 Limited provided significant dividends in the year to 30 June 2006 on the back of vastly improved development progress which lead to acceleration of sales from the company's Martha Cove lifestyle development in Victoria.

The significant construction progress made on the project during the year was reflected in an impressive sales performance with \$132.2 million in sales settled in the year. This allowed CP1 to post a 59% jump in after tax profit to \$30.5 million. Over the past 12 months CP1 has averaged \$1.5 million for Martha Cove waterfront house-land packages in stage one and has achieved up to \$2,000 a square metre for prime land on Brindabella Point in the project's second stage.

Contributing to CP1's increased earnings in fiscal 2007 will be the company's Braeside project, located south-east of Melbourne. Significant presales have already been achieved in the two industrial parcels currently being developed.

Approximately 11 hectares of industrial land is being developed on both a land only or built product basis.

The 32 hectare Braeside project also includes additional land which allows CP1 various options including retail, industrial or residential development. Planning of the balance land areas is currently under way.

CP1's other remaining project is a 2.5 ha redevelopment site located at Budds Beach on the Gold Coast.

Development of the site is likely to be staged through until about 2010 and will result in up to five residential towers being constructed. Applications for Stage One are to be lodged by December with approvals to be in place by mid 2007, and construction of stage one commencing later in 2007.

A subsidiary of CP1 operates the Paradise Resort, which is located on the site. This operation contributed around \$4 million in profit during the year which assisted in offsetting the project's holding costs.

On Monday City Pacific exercised over 55 million options in CP1 at a cost of \$43 million. This transaction allowed City Pacific to maintain its holding in CP1 at 55% after selling 22 million shares at a profit of approximately \$17 million in an off-market transaction. The exercise of the options will allow CP1 to reduce its debt level by \$43 million.

### ***Breakwater Pacific***

City Pacific is involved with the \$1 billion Breakwater Quays project in Townsville.

Under the approved masterplan, Breakwater Quays will comprise 1,000 medium rise apartments, an international cruise ship terminal, prestigious waterfront homes, new marina berths and associated retail and restaurant outlets. There are three parts to the Breakwater Quays development, two on the existing land and one the reclamation of further land. City Pacific is involved in two of these three projects.

A joint venture between City Pacific and Mirvac has acquired and will develop a part of the existing land and the existing marina.

A Development Agreement with the Queensland Government has been negotiated and finalised and City Pacific has the development role for the construction of the cruise ship terminal and the associated residential development in the future development area to the north of the Jupiter's Townsville Casino.

The development of the cruise ship terminal precinct will involve the reclamation of approximately 35 hectares of land surrounded by 10 hectares of waterways. This reclamation will deliver over 500 waterfront lots and waterfront apartments which will be offered for sale by City Pacific. The cruise ship terminal will be constructed for the State Government who will be providing a substantial contribution to its costs.

City Pacific's other joint venture project with Mirvac over the South East Queensland parcel of land known as Gainsborough Greens is expected to commence in the first half of the 2007 calendar year and deliver around 1900 residential lots.

The Hometown Geelong joint venture with the Smorgon Group and Costa Family over the ex Ford Motor plant land has lodged an application for development of a \$100 million bulky goods complex. We are hopeful of a 2007 start to construction.

### **City Pacific Project Management**

City Pacific Project Management has been involved with the Townsville project since the conception of the masterplan, and has responsibility for management and delivery.

Other projects City Pacific Project Management was involved with during the 2006 financial year were the \$54 million Jupiters Casino extension, the Martha Cove project in Victoria and the \$960 million Pacific Beach project on the Gold Coast.

The 9,500 m<sup>2</sup> Pacific Beach site located between Surfers Paradise and Broadbeach is one of the largest absolute beachfront sites ever amalgamated on the Gold Coast, and boasts approximately 115 metres of absolute beach frontage. City Pacific has arranged the funding, is managing the development process and will receive one third of the project profits.

The development, which will comprise two towers and a number of exclusive beach houses and extensive entertainment and leisure facilities, is expected to commence in 2008 and to be completed in 2010.

### ***Indigo Pacific***

City Pacific's investment in Indigo Pacific Capital Limited, a specialised funder of property development projects, also made a contribution to group profit.

A number of projects are currently being assessed jointly with Indigo Pacific and are scheduled to come on board in the current year.

Indigo Pacific is paying a dividend of 9 cents fully franked, well up on the prior year's 4 cents dividend.

### ***Grande Pacific***

During the 2006 financial year Grande Pacific was established as a specialist 5 or 6 star Independent Living Communities provider. City Pacific holds a 50% stake in Grande Pacific,

which has secured a number of sought after locations for this innovative product. The first site overlooks the Broadwater in Southport, Queensland.

Grande Pacific is also in the planning stages of a waterfront Independent Living Community at Martha Cove and additional sites have been secured in Queensland and New Zealand. All targeted sites have excellent exposure to the purchaser demographic segments, and with project rollouts planned over many years Grande Pacific has the resources and expertise to provide City Pacific with a solid contribution to profits over the medium to long term.

## **OUTLOOK**

So in conclusion, we remain very positive about the future and continued growth in our business.

We expect growth in our funds management business to continue to improve and institutional support for our lending to make our target of \$2 billion under management achievable by December 07.

Increased margins can be expected in our residential and commercial finance division as our own branded lending products are sold into the market through recently released or soon to be released securitised products.

In the property division we expect to continue to reap benefits from our investments in CP1 and Indigo Pacific Capital. Our various joint venture arrangements are set to contribute significant profits over coming years as the various projects roll out.

Our interest in nearly 7,000 lots to be developed will stand our property division in very good stead for years to come.

City Pacific Project Management has projects with a total end value of around \$2 billion, this number will undoubtedly grow as our property division undertakes more projects.

After a year of significant consolidation and progress for your company we will continue to generate further value for all of our shareholders and investors.

Finally, I would like to sincerely thank staff and executive team that have made my task as CEO so easy over the last 9 years. With the enthusiasm and energy that they all show it is no wonder that we continue to break records.

Let's look forward to another record year – Thank you.