

## **CITY PACIFIC FIRST MORTGAGE FUND (THE FUND)**

The following questions and answers have been compiled in an effort to provide investors in the Fund with a better understanding of the status of the Fund and the environment it is currently operating in.

### **1. Is the Fund in trouble?**

- The Fund has been affected by:
  - the current global credit crisis which has negatively impacted property and fund management businesses worldwide; and
  - a slow down in the scheduled repayment of loans to the Fund coupled with the Fund's financier requiring repayment of their loan.
- The 30 June 2008 external audit for the Fund is being finalized and current indications are that approximately 5% of the total value of the loans may have been affected by the above factors.
- In respect to the current market conditions a 5% provision against the total value of the loans made by the Fund is considered reasonable by management. A provision is an accounting entry that establishes an allowance for a potential loss. Given the current market volatility it is considered prudent to make a provision in the event that any losses occur.

### **2. Is my money safe in the Fund?**

- City Pacific does not and has never guaranteed the performance of the Fund however the Fund primarily holds a registered 1st mortgage as security for each property against which it has lent money. This is the highest form of security that can be held against property.
- These properties are located in areas where the property market continues to be supported by population growth.
- The Directors believe it is in the best interests of all investors to preserve the value of the Fund by allowing for the completion of projects in the ordinary course of the Fund's operations.

### **3. Why do you continue to lend money to borrowers?**

- The Fund is not undertaking any new loans.
- The Fund has commitments to existing borrowers to fund their projects to completion.
- Selling a half completed project will not return half of the value of the completed project.
- The key to realizing the value of the projects being funded is to allow those developments to be completed and sold in an orderly manner.

### **4. Why can't you force borrowers to repay their loans?**

- We can force the borrowers to repay their loans however this will not guarantee the full recovery of the amount owed to the Fund.
- There are a number of loan recovery options available to the Fund and the option selected will be that which aims to secure the full repayment of the loan in the shortest period of time.
- The Fund has the ability to require the repayment of loans due to breaches by its borrowers however a fundamental of the Fund is to co-operate with borrowers to ensure their projects are completed so that the Fund can realize the full repayment of its loans.
- Where necessary the Fund will take mortgagee possession of the project/property and either:
  - arrange for the completion of the project and orderly sell down; or
  - market and sell the project/property in its current state.

### **5. What happens to the money that is repaid by the borrowers?**

- The money repaid by borrowers is used by the Fund to:
  - firstly repay its finance facility. The reduction of this facility has diverted funds that would normally have been used to fund redemptions;
  - continue to fulfill its commitments to existing borrowers (see 3 above);
  - meet its operating costs; and
  - pay distributions.

**6. Why is City Pacific still being paid management fees?**

- City Pacific as the responsible entity and manager of the Fund pays for all the running costs of the Fund out of the management fees it receives. These running costs include but are not limited to:
  - Custodial fees
  - Legal fees
  - Audit fees
  - ASIC fees
  - Consultant fees
  - Compliance Committee fees
  - Industry body membership fees
  - Printing and stationary costs
  - Postage costs
  - Software and system costs
  - Insurance
  - Bank fees
  - Wages
  - Archive and document storage fees
- City Pacific has also reduced operating costs across the business and has reduced staff numbers over the last 8 months in line with market volatility and changing conditions.

**7. Will the July and August distributions be paid to me at any stage in the future?**

- Unfortunately no, the amount is required to off-set the provision as outlined in 1 above and is therefore not able to be paid at a later date.

**8. When will distributions re-commence and at what rate?**

- Investors will be notified of this following the completion of the 30 June 2008 audit for the Fund.
- City Pacific will now determine the distribution rates at the end of each month (i.e. monthly in arrears) and update investors via the website at [www.citypac.com.au](http://www.citypac.com.au), therefore distribution rates will no longer be set quarterly in advance.

**9. When will I get my money back?**

- The Fund is currently operating within a redemption deferral period of up to 360 days. This means that you may have to wait for up to 360 days from the date you lodge your redemption request for Premium Fund investors or from the maturity date of your investment for fixed term investors.
- If loan repayments are not collected as scheduled, the Fund will not be in a position to resume redemptions within the 360 day period and it will have to commence operating as a non-liquid fund.

**10. How does a non-liquid fund operate?**

- If the Fund operates as a non-liquid fund, there is no set timeframe for the payment of redemptions.
- Redemptions will be offered when the Fund has the cash available to do so and will be paid out on a pro-rata basis.
- If the Fund operates as a non-liquid fund it will be in a wind down mode and is likely to pay reduced distributions.
- There are specific requirements in the Corporations Act which set out how a non-liquid fund must operate.

**11. What if I need my money sooner?**

- City Pacific is aware that a number of investors require access to all or part of their funds.
- City Pacific has considered, in conjunction with its advisers, a number of options which will provide investors with an opportunity for ongoing liquidity.
- We will shortly be providing you with details of the offer.