

## IMPORTANT NOTICE REGARDING DISTRIBUTIONS

13 October 2008

Dear Unitholder

### City Pacific Income Fund (Income Fund)

On 29 July 2008 I wrote to inform you that the Income Fund had been deemed a non-liquid fund due to its investments in stable interest investments and indirectly in loans secured by registered mortgages over real property via the City Pacific First Mortgage Fund.

Today the Directors of City Pacific have announced that the City Pacific First Mortgage Fund (Fund) has been deemed non-liquid and that the payment of future distributions will be dependent upon the level and timing of loan repayments by borrowers to the Fund. The City Pacific First Mortgage Fund will not be paying distributions for the months of September or October. As a result of this the Income Fund will not be able to pay distributions for the months of September or October and the payment of future distributions by the Income Fund will be dependent upon the City Pacific First Mortgage Fund paying distributions.

Please find attached for your information a letter sent to City Pacific First Mortgage Fund Unitholders which explains the reason behind the non-payment of distributions.

### E-communications

With our regular important communications to ensure we keep you informed in timely manner we would like to appeal to you to register your email address should you have one. Registering your email address will ensure you receive our communications in a timely, environmentally friendly and cost effective manner. Kindly register for email communication by logging on to via our website at: [www.citypac.com.au/email](http://www.citypac.com.au/email)

City Pacific has made every effort to reassure investors that our priority remains to preserve the quality and value of the assets in the Income Fund and First Mortgage Fund.

We will continue to keep you informed about the Income Fund and we ask that you contact our Client Relations Team on 13 47 69 should you have any questions.

### CITY PACIFIC LIMITED



Phil Sullivan  
Managing Director & CEO

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## IMPORTANT NOTICE REGARDING DISTRIBUTIONS

13 October 2008

Dear Unitholder

### **City Pacific First Mortgage Fund (Fund)**

I write to you in a time when our global markets face unprecedented volatility and each day brings a new development in this global credit and liquidity crisis (Global Financial Crisis). This weekend the world leaders met in Washington to co-ordinate a global campaign to end the escalating crisis.

The Global Financial Crisis has had a significant impact on the Australian property and financial markets and this has proven to be a very challenging year for our Fund. Preserving the value of our Fund's assets is paramount to ensure that the property values can be realized when the market stabilizes and this remains our primary objective for the ultimate benefit of our unitholders.

On 24 September 2008 I wrote to notify you of our revised strategy to give liquidity to those unitholders who have expressed an urgent need to access their funds and of our expectation to recommence the payment of distributions.

The proposal to list the Fund on the Australian Securities Exchange (ASX) is considered to be the most effective strategy to provide those unitholders with a liquidity solution in the timeliest manner. However, since that date there have been significant developments in the world markets which continue to have devastating effects on the stability of the entire global financial system.

On Friday 10 October 2008 the ASX suffered its second worst trading day in history, with investors losing \$106 billion in value as the Australian share market fell by 8.2%. As a result of these catastrophic market conditions, the Directors, along with our advisors, have this weekend reconsidered the listing of the Fund on the ASX and concluded that there is too much volatility and uncertainty in the world markets to proceed with the proposal at this time.

The Directors consider that listing the Fund in the current economic environment is unlikely to achieve the liquidity objective for those unitholders seeking to exit the Fund. As evidenced on Friday there is extreme uncertainty in the global share markets and the underlying value of assets is no longer reflected in the trading prices of listed securities. The Directors do not want to seek a listing of the Fund at a time when the global share markets continue to be extremely volatile, accordingly the proposal to list the Fund has been postponed.

With regard to the payment of distributions, the repayment to the Fund of a number of loans has been delayed following the impact of the Global Financial Crisis. The settlement of these transactions (due on 30 September 2008) would have provided sufficient funds for the reduction of the Fund's finance facility, the payment of existing progress draws to borrowers and the payment of the September distributions. As a result of these continued delays we have been negotiating with the Fund's financier to secure an extension to the Fund's finance facility.

## **Renegotiation of the Fund's Finance Facility**

Since March 2008 we have taken decisive action to progressively reduce the Fund's finance facility to \$121.5 million. Although the facility has been reduced the Fund has been unable to meet scheduled repayment dates due to delays in the loan repayments to the Fund by borrowers.

The facility is due for repayment on 31 October 2008 however due to the delays in borrowers' repayments to the Fund, we are negotiating a further extension on terms which are acceptable to the financier.

We will continue to work with the financier to ensure that we protect the value of the Fund for the benefit of all stakeholders during this period of unprecedented market turmoil.

## **Non-payment of distributions**

The Fund continues to meet the payment of progress draws to borrowers in order that they may complete their respective projects. This will allow for the settlement of pre-sales which in turn will enable the borrowers to repay their loans and allow the Fund to reduce its finance facility. It is therefore with deep regret that I notify you that the Fund will not be in a position to pay distributions for the months of September and October as all available funds are required to be applied to the reduction of the Fund's finance facility, the payment of progress draws to borrowers and to meet the operating costs of the Fund.

Moving forward the payment of distributions will be dependent upon the level and timing of loan repayments by borrowers to the Fund, taking into account the requirements of the stakeholders.

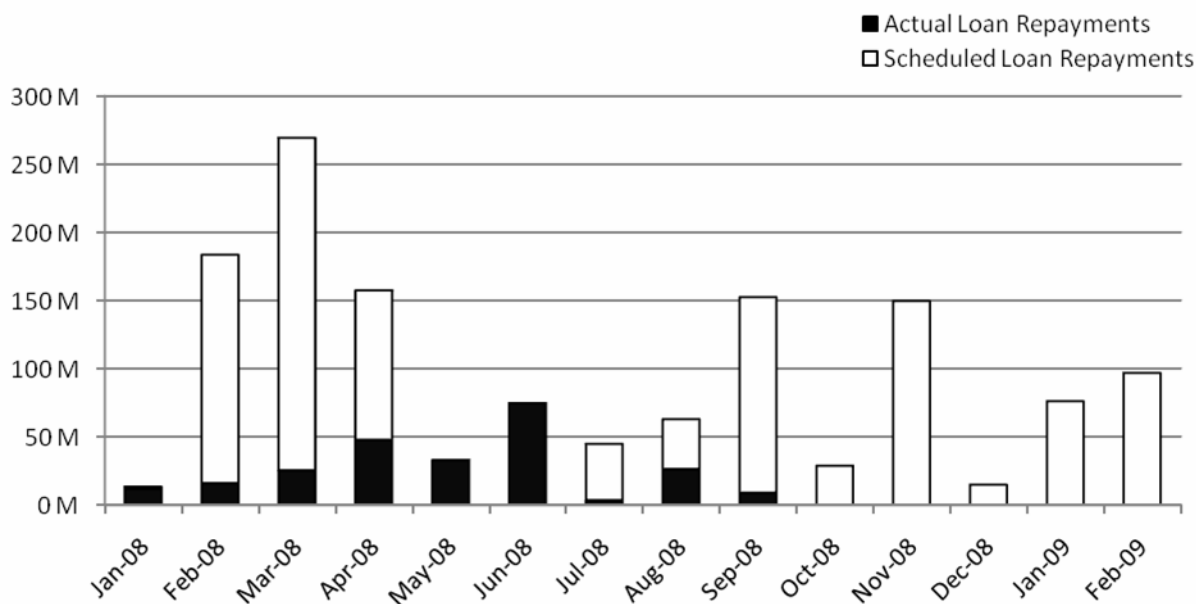
## **Status of the Fund's loan portfolio**

There is clear evidence that lending by Australian banks continues to tighten and companies are finding it increasingly difficult to fund new investments and refinance their existing debt commitments. The effects of this Global Financial Crisis have and continue to impact the Australian property market and as a result we have seen a significant decrease in the volume of property sales in the last 6 months.

Our Fund has not been immune to the effects of the Global Financial Crisis and I take this opportunity to provide you with a snapshot of the Fund's loan repayment cash flow during 2008. The graph and table below illustrate the impact that the liquidity crisis has had on the Fund's borrowers being:

- an inability to refinance their loans with banks due to insufficient funding being available in the financial markets; and
- an inability to repay their loans as and when they are due as a result of the significant slowdown in property sales.

## City Pacific First Mortgage Fund loan repayments January – September 2008



I would like to highlight that the inability of the Fund's borrowers to repay or refinance their loans is **not a reflection on the quality of the borrowers' projects, or inaction by borrowers or City Pacific**, but rather the result of the adverse market conditions that currently exist as explained above. The quality of the Fund's assets is further evidenced by the Fund maintaining an unaudited net tangible asset position of \$0.97 (after impairment) as at 30 September 2008.

In order to further demonstrate the impact of the current market conditions on the Fund's borrowers I would like to highlight the following example for your consideration:

*The Fund currently has a loan to an experienced developer completing a residential highrise building located in South East Queensland. The building comprises luxury apartments with uninterrupted ocean views and is due for completion in November 2008. The developer has 75% pre-sales which were achieved prior to April 2008. In the last 6 months the sales centre has maintained an active marketing campaign but has not been able to sell any of the remaining apartments.*

I give this example to illustrate that even a premium quality building in a prime location, which achieved significant pre-sales is now not attracting buyers.

With consideration to the market conditions we continue to actively manage the Fund's loan portfolio and take whatever action is appropriate on a case by case basis to protect our unitholders' investments.

## **Non-liquid Managed Investment Scheme (non-liquid fund)**

Due to the increase in the delays of repayments by borrowers to the Fund, and our expectation that this trend will continue as a result of the current market conditions, it is unlikely that the Fund will be in a position to commence the payment of redemptions on 26 February 2009. This factor has caused the Board, in conjunction with its advisors, to consider that the Fund has become non-liquid and will therefore now operate as a non-liquid fund.

The Fund will continue to repay its finance facility and meet funding obligations to existing borrowers to ensure that projects are completed to allow for the loans to be repaid.

As a non-liquid fund all existing redemption requests will be extinguished and the redemption process will operate in accordance with the Corporations Act as follows:

- the Fund will make **periodic redemption offers** to all unitholders at times when there are sufficient funds available to do so. The Board will determine the amount that constitutes "sufficient funds" for a redemption offer to be made. The Board does not expect to make redemption offers where less than 10% of total unitholders funds are available for redemption;
- redemption offers will be made in writing to all unitholders and will specify the amount of funds available for that redemption offer. Unitholders wishing to redeem will be required to respond to the redemption offer stating the amount they wish to redeem (redemption request);
- in the event there is an oversubscription to the redemption offer (i.e. the amount of the redemption requests exceeds the amount of the redemption offer), the redemptions will be paid on a pro-rata basis to all unitholders who have submitted a redemption request.

The Board has resolved that whilst the Fund remains a non-liquid fund it is inappropriate to pay a different distribution rate to each class of units on issue. Historically the differential distribution rate was a reflection of the term a unitholder chose to invest in the Fund, the longer the term of investment the higher the distribution rate (when compared with other distribution rates paid by the Fund).

Whilst the Fund remains a non-liquid fund any distributions paid by the Fund will be paid equally between each class of unitholders.

The basis for this decision is to treat all unitholders equally such that all unitholders will be entitled to redemptions and distributions equally.

Given the continuing impact of the Global Financial Crisis on the Australian property market the timing of redemption offers will be dependent upon available funds derived from the realisation of the loan portfolio.

As a non-liquid fund it will continue to have the ability to make new loans if it is deemed in the best interest of unitholders and will have the ability to raise new funds through the issue of a new product disclosure statement.

Our priorities remain to:

- preserve the value of our Fund's assets to ensure that the property values can be realised when the market stabilises; and
- recommence the payment of distributions,

for the ultimate benefit of our unitholders.

## **Listing of the Fund**

The decision by the Board in March 2008 to defer redemptions was made to protect the underlying assets of the Fund. At the time the decision was made it was our intention to resume redemptions within the permitted deferral period. In order to resume the payment of redemptions the Fund was reliant on the receipt of forecast loan repayments however many of those repayments have not occurred due to the reasons I have outlined above.

We are aware that there are a number of unitholders who have expressed a need to urgently access their funds, which currently the Fund is unable to provide. In light of the pressure on the Fund created by this demand and the current condition of the property market we have investigated strategies that will provide those unitholders with liquidity whilst allowing the Fund to continue operating to ensure the protection of the assets for those unitholders not seeking to exit the Fund.

We still consider listing the Fund on the ASX to be the most effective strategy to achieve the above objectives, however the Directors consider that there is too much volatility and uncertainty in the world markets to proceed with the proposal **at this time**.

## **Unitholder seminars to continue**

The Directors believe that it is imperative for City Pacific to address unitholders regarding the information contained in this letter and allow you to pose any questions you may have.


A schedule of the seminars being held in October and November around Australia is attached and I would like to recommend that you attend one of these seminars if you are able. In order to minimise costs we are holding these seminars in locations where there is the largest concentration of unitholders, accordingly I would like to apologise in advance to those members who are not able to attend due to the location of the seminars.

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On behalf of our Board and staff I would like to take this opportunity to reassure you that your interests are our priority and our focus remains to preserve the quality and value of the assets of our Fund.

## **CITY PACIFIC LIMITED**

A handwritten signature in black ink, appearing to read 'Phil Sullivan', followed by a horizontal line extending to the right.

Phil Sullivan  
**Managing Director & CEO**

### CITY PACIFIC INVESTOR SEMINARS

Investors in the City Pacific First Mortgage Fund (Fund) are invited to attend an Investor Seminar at which City Pacific Limited (City Pacific) will:

- Provide an overview of the Fund and the prevailing market conditions
- Discuss the proposed liquidity solution for investors in the Fund
- Discuss City Pacific's role as the Manager of the Fund
- Provide an opportunity for investors to ask questions

We look forward to your company at one the following venues:

City/Town	Perth	Gold Coast	Adelaide	Melbourne	Ballina	Brisbane
<b>Day &amp; Date</b>	Tues 14 <sup>th</sup> October	Fri 17 <sup>th</sup> October	Mon 20 <sup>th</sup> October	Tues 21 <sup>st</sup> October	Wed 22 <sup>nd</sup> October	Thurs 23 <sup>rd</sup> October
<b>Time</b>	10am	4pm	10am	10am	12pm	10am
<b>Venue</b>	Duxton Hotel	Gold Coast Convention Centre	Stamford Plaza	CQ Functions	Ballina RSL Club	Brisbane Convention Centre
<b>Address</b>	No 1 St Georges Terrace Perth	Gold Coast Highway Broadbeach	150 North Terrace Adelaide	113 Queen St Melbourne	20 River St Ballina	Cnr Merivale & Glenelg Streets Brisbane

City/Town	Cairns	Townsville	Toowoomba	Mudjimba	Sydney
<b>Day &amp; Date</b>	Tues 28 <sup>th</sup> October	Tues 28 <sup>th</sup> October	Wed 29 <sup>th</sup> October	Mon 3 <sup>rd</sup> November	Thurs 6 <sup>th</sup> November
<b>Time</b>	10am	3.30pm	12pm	1pm	2pm
<b>Venue</b>	Cairns Holiday Inn	Townsville Holiday Inn	Quality Hotel Burke & Wills	Novotel Twin Waters Resort	Wesley Conference Centre
<b>Address</b>	Cnr The Esplanade & Florence Street Cairns	334 Flinders Mall Townsville	554 Ruthven St Toowoomba	Ocean Drive Twin Waters	220 Pitt St Sydney

Tea and Coffee will be served following the seminars. As seating is limited please register your attendance by calling our Client Relations Team on **13 47 69** or email: [enquiries@citypac.com.au](mailto:enquiries@citypac.com.au) at least **7 days before** the seminar you wish to attend.