

Battered City Pacific to face investors

Nick Nichols, business editor

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CITY Pacific has finally bowed to commercial reality and shaved 39 per cent off the value of its \$1 billion First Mortgage Fund.

Seven months ago, the company, when under the control of founder Phil Sullivan, wrote down just 5 per cent -- or \$50 million -- in the value of its loans to \$969 million after a horror year of market upheaval.

Yesterday, it revealed loan impairments of \$339 million, a surge of more than 700 per cent since September.

The figure at last gives unitholders in the frozen fund an idea of what their investment is now worth -- about \$630 million or 61c for each of their \$1 units.

The unaudited figures were released by City Pacific yesterday, ahead of a crucial vote on Friday on management fees.

The impairments reflect the losses City Pacific can expect when it tries to recover delinquent loans.

The company has already made a move on a number of those loans, appointing receivers to four companies controlled by developer Craig Gore, said to owe the First Mortgage Fund \$183 million.

The First Mortgage Fund also has appointed receivers to Larry Matthews' company Blackbean Pty Ltd over a \$47 million debt.

City Pacific has blamed the 'unprecedented' meltdown in financial markets for the impairments.

"These impairments do not represent an actual amount lost by the fund," said the company in a statement to the stock exchange yesterday.

"They represent carrying value of assets in the fund and, accordingly, an impairment would not be crystallised until such time as the underlying assets of the fund are sold or refinanced."

City Pacific chief executive John Ellis could not be contacted for further comment.

City Pacific is facing an assault for control of the First Mortgage Fund on two fronts -- from Trilogy Capital, which is seeking to replace City Pacific as responsible entity, and Investaguard, a new entity that wants to internalise management of the fund.

But the big test for the Broadbeach-based property financier will come this Friday, when investors vote to reduce the management fee it charges to the fund from 3 per cent to 1.5 per cent.

City Pacific has said a cut in management fees below 2.5 per cent will lose the support it currently enjoys from its financier, the Commonwealth Bank.

City Pacific's share resumed trading yesterday after a two-month suspension.

After initially spiking to a high of 10c, the shares closed sharply lower at 6.5c -- a fall of 1.5c, or 18.7 per cent, on their last trade in February.

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