

We are Investors in the City Pacific First Mortgage Fund.

Our investments are the results of a lifetime of work, where both of us have worked long hours in the service industry which involved a lot of weekend work, and a lot of sacrifices were made so that we could realise our goal in our retirement years to be self-funded retirees.

We made these investments - which included rolling over a substantial part of our superannuation fund - into City Pacific First Mortgage Trust, which in 2007 became the City Pacific First Mortgage Fund when the fund was deconsolidated.

It is hard for us ordinary investors to understand how the PDS dated 1st February, 2005 advertised that its loan value ratio as at 31st December, 2004 was 63.8% (pg.7). It is THIS PDS that we invested under. The events that occurred in the fund that were disclosed to us AFTER we had lodged our investments, and the actions taken by City Pacific have jeopardized our investments. In 2007 City Pacific made repeated claims of profits and growth. Yet it was in September, 2007 that the Fund increased its finance facility with the CBA bank by \$90million to \$240million, despite the now apparent fact that in the interim period redemptions had increased significantly, less investments were coming into the fund, and defaults were on the increase. The deconsolidation of the Fund that the inaction of the regulatory authorities that allowed this to happen is an important issue that should be addressed.

When the fund was deconsolidated in December, 2007 a new PDS was issued, but since our investments were already "locked-in" for a two year re - investment term from Nov, 2006 - Nov, 2008 we did not receive the new PDS (no.8?). It would have made no difference, as we were caught in a fund where the ground rules had changed significantly, as we feel that the increase in the loan facility to the CBA, and the deconsolidation of the fund placed our investments at total risk..If we had been privy to the internal transactions in the fund we would never have proceeded with re - investing. We feel we should be able to rely on City Pacific's Consolidation as stated in the PDS that was current at the time when we made our investments.

Another issue is regarding a letter we received from ASIC dated 13th July, 2009 in reply to one that I sent to them 31st March, 2009, complaining about City Pacific and the "swap" of securities from the Waves Hotel in Byron Bay to second mortgages at Martha Cove in March 2009. This was the subject of an article in Business Spectator March 31st, 2009 [http://www.businessspectator.com.au//bs.nsf/Article/City-Pacific-\\$pd20090331-QMT7Z?OpenDocument](http://www.businessspectator.com.au//bs.nsf/Article/City-Pacific-$pd20090331-QMT7Z?OpenDocument)

.Despite having waited for nearly four months for them to reply to me, I later learnt that this reply to us was just part of a general mailout to other unitholders who had made complaints to ASIC although they did, in the first paragraph in their reply, briefly address my concerns outlined in my letter to them 31st March, 2009

The area of concern for me in their reply to me is....

"....In relation to your allegation that City Pacific has used unit holders funds to pay the corporate debts of Marina Cove and this is a breach of the Corporations Act 2001, I advise that we are aware of this issue and cannot comment further at this time....."

also this paragraph...

"....As stated above, we are aware of the issues you have raised. We Continue to monitor the actions of City Pacific in relation to the operation of the Fund. please note, however that ASIC cannot comment on operational matters, and I am, therefore, unable to provide further details regarding what, if any, action ASIC may or may not take in relation to your concerns other than the information provided on our website...."

(the letter is signed by Ritesh Patel, Misconduct and Breach Reporting, Stakeholder Services)

FROM THEIR OWN WEBSITE...

What ASIC is responsible for

ASIC administers the regulatory system of consumer protection for:

- deposit-taking activities eg transactions or savings accounts
- general insurance
- life insurance
- superannuation
- retirement savings accounts
- managed investments
- securities (ie shares and debentures)
- derivatives (ie futures contracts)
- foreign exchange contracts
- credit.

Consumer protection regulation for these products includes:

- requirements about the information that must be disclosed to consumers about these products
- general prohibition against misleading or deceptive conduct and other unfair practices
- licensing of people who give advice on or are dealing in financial products
- requirements for conduct of financial services providers
- approval of alternative dispute schemes and industry codes.

ASIC does not have responsibility for the level of fees and charges (as distinct from disclosure of these fees and charges).

My question is this,

Where does monitoring start and stop, and when does regulating start and stop

Does the Department of Misconduct and Breach Reporting monitor or regulate?

It has now been disclosed to us that a major part of our investment went to acquire a parcel of land at Broadbeach, Queensland. The price of accumulating what I understand to be ten separate titles to create a single title may serve the interests of a developer, but how does it serve the best interests of us unitholders? Who stood to benefit from the development of the site? Not the unitholders, our investment there would only ever start and finish with the first mortgage itself. So why was this loan allowed to balloon out to \$200million...doubling over approximately three years...? How were the best interests of the unitholders in the CPFMF protected by Fortress becoming a "co - lender?"

We would like to see better disclosure in regards to the business backgrounds of the people that are given Financial licences to start up investment funds. We would like to see better disclosure in Financial Statements, where funds such as City Pacific disclose income in two separate columns - those paid and those payable. When income is disclosed in one column, we never really knew what was paid and what was payable. Hence we were never in a position to know the true state of the Fund.