



Investa Properties Limited
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17th July 2003

The Manager
Company Announcements
Australian Stock Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Madam

Re: Principal Office Fund ("POF") Third Supplementary Target's Statement

Investa Property Group Limited ("Investa") has considered the proposal presented by Principal Real Estate Investors Australia ("PREIA") contained in the Third Supplementary Target's Statement for Principal Office Fund.

PREIA's proposal does not constitute an Offer. It has been developed by PREIA and its US parent Principal Global Investors ("Principal"). POF's Responsible Entity, **BT Funds Management ("BTFM") has not recommended the PREIA proposal.** In fact, BTFM is not obliged to put the alternative to POF Unitholders in the event of an unfavourable Independent Expert's report. There are many other circumstances under which BTFM may not present the proposal to POF Unitholders for their consideration.

Should BTFM choose to present PREIA's proposal to POF Unitholders, this cannot occur until late September 2003. The proposal, if presented, may vary from the terms currently outlined by PREIA and may not be approved by POF Unitholders.

Investa notes that PREIA has planned for POF to incur substantial expenditure on developing and implementing its alternative proposal. Even if the proposal is put to POF Unitholders, it may never eventuate because of its highly conditional nature. The large number of conditions includes:

- Approval by POF Unitholders;
- various regulatory approvals;
- completion of satisfactory due diligence on 16 US office and industrial assets;
- acquisition/creation of a US REIT;
- securing finance for the transaction on satisfactory terms; and
- negotiation and entry into various management agreements with Principal.

In contrast, Investa's Offer to acquire 100% of POF is unconditional. Provided POF Unitholders deliver valid acceptances by the scheduled close this coming Monday, July 21st, they are certain of receiving their cash and scrip consideration within five days of receipt of their valid acceptance. The implied value of Investa's Offer on a volume weighted average price ("VWAP") of Investa securities since

Investa acquired its initial stake in POF is \$1.62 per POF unit. This is well above POF's closing price on the ASX today of \$1.56. The implied Offer price will vary with changes in the price of Investa securities.

The PREIA proposal is also directly contradictory to many of the reasons presented in BTFM's Target's Statement and Independent Expert's report (prepared by Deloitte Corporate Finance Pty Limited) for rejecting Investa's now unconditional bid for POF. BTFM has commissioned the same Independent Expert to report on PREIA's proposal.

As POF's largest Unitholder (Investa owns 11.79% of POF), Investa holds serious concerns about the strategic merit of the proposal, its immediate and longer term financial risks and as a result will not support the proposal.

In summary, Investa's concerns with the PREIA proposal include:

- A material change to investment strategy through acquiring US industrial and suburban office properties
- A material dilution in the overall asset quality. The markets, where the proposed acquisitions are located are experiencing great weakness with significant vacancies.
- Significant uncertainty as to the proposal being implemented.
- Significant new risks of volatility to earnings including foreign exchange and interest rate movements between now and the proposed closure date of 31 December 2003.
- PREIA's capacity to manage the complex integration process.
- Lower index weighting and liquidity of POF under the proposal compared with Investa should its acquisition of POF proceed to 100% ownership.
- The substantial leakage of fee income with fees payable to PREIA's US Parent for asset management and acquisition, which may be in excess of fees currently paid to PREIA.

PREIA has highlighted that should its proposal proceed, POF's "pro forma" distribution for the year ending 30 June 2004 is 13.1 cents per security. This distribution relies on a significant element of return of capital. Under its Offer for POF, Investa is forecasting a distribution of 12.9 cents per security for the year to June 2004. Investa's forecast involves no capital distribution.

In any case, it is worth noting that under PREIA's proposal, the 13.1 cents per security cannot be achieved for the period to June 2004, as its proposal will not be implemented until January 2004, whereas the proforma accounts assume implementation as at July 1 this year, two weeks before the proposal was announced.

Investa is of the opinion that the only sure beneficiary of PREIA's last minute, alternative proposal is PREIA's US Parent which stands to gain substantial benefits and rights from implementation of such a proposal including:

- Ongoing asset management fees for the US portfolio equating to 5 percent of that portfolio's income.
- Asset acquisition fees on the initial US portfolio at the greater of A\$5 million and 1.25 percent of portfolio value. Future acquisitions will be at 1.00 percent of value.
- PREIA has said its objective would be to grow the US portfolio from an initial \$460 million to around 50 percent of total portfolio value, i.e. around \$1.8 billion based on POF's portfolio value today.
- Principal will maintain substantial influence, if not effective control, over the new POF vehicle in Australia based on its proposed board structure.
- Principal will also retain the capacity to terminate and retrieve the proposed hotel property management agreement with POF under 30 days notice after the first six months.

Investa believes that it has the Australian based expert management team, resources and investment strategy to deliver superior value across all aspects of the property value chain for POF Unitholders.

Investa encourages POF Unitholders to immediately accept its unconditional Offer which is scheduled to close at 7.00pm on Monday, July 21st 2003.

For further information please contact Chris O'Donnell on 02 8226 9301.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Brian McGarry', with a long horizontal stroke and a vertical line extending downwards from the right end.

Brian McGarry
Company Secretary

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