



**INVESTA**  
Property Group

July 9, 2003

Investa Properties Limited  
ABN 54 084 407 241  
Level 17, 135 King Street  
Sydney NSW 2000  
GPO Box 4180  
Sydney NSW 2001  
Tel: 02 8226 9300

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

Dear Madam

**INVESTA PROPERTY GROUP**  
**Response to Target Statement**

Having considered the arguments set out in the Target's Statement, we attach our response which is to be mailed to all Principal Office Fund Unitholders.

If you have any questions relating to this announcement please call the undersigned on 02 8226 9301.

Yours faithfully

**Chris O'Donnell**  
**Managing Director**

Tel: (02) 8226 9301  
Fax: (02) 8226 9499  
Email: [codonnell@investa.com.au](mailto:codonnell@investa.com.au)



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10 July 2003

Dear Unitholder

**INVESTA PROPERTIES LIMITED (INVESTA)  
OFFER FOR PRINCIPAL OFFICE FUND NOW UNCONDITIONAL**

**You will be paid no later than five business days after Investa receives your valid acceptance.**

The responsible entity of Principal Office Fund (**POF**), BT Funds Management Limited (**BTFM**), has recently released its Target's Statement in response to our Offer to acquire all of your units in POF. The Offer is 7 Investa securities and \$4.86 cash for every 12 POF units and is contained in the Bidder's Statement that was sent to you on 20 June 2003.

Investa's response to some of the matters raised in the Target's Statement is attached.

Investa, which is the largest unitholder in POF, and the current owner of approximately 9.5% of POF units, is pleased to advise you that it has declared its Offer to be free of all conditions. At the same time Investa announced that accepting POF unitholders will be paid the Offer consideration no later than five business days after Investa's receipt of valid acceptances.

Since Investa's Offer was announced, its value (based on the trading price of its securities) has moved in the range of \$1.69 and \$1.54 per POF unit. Based on the volume weighted average trading price (**Average Trading Price**) of Investa securities over the period since the Offer was announced (\$2.11), the Offer equates to a price of \$1.63. This represents an 18% premium to the Average Trading Price of POF units (\$1.38) for the five day period prior to Investa buying its initial 8.4% stake in POF on 21 May this year.<sup>1</sup>

If you accept the Offer, Investa forecasts that your investment in Investa will provide you with between a 14.0% and 16.4% increase in pre-tax distributions for the 2003/2004 year over that which you could expect to receive from your POF units.<sup>2</sup> The extent of the increase in distributions above 14.0% will

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<sup>1</sup> You should note that as Investa securities form part of the consideration under the Offer, the implied Offer price will vary with changes in the price of Investa securities.

<sup>2</sup> Based on Investa's estimate of distributions to be paid to POF unitholders in the year ending 30 June 2004, assuming the reinvestment of the cash component of the Offer in additional Investa securities.

depend upon the level of acceptances received by Investa. By contrast POF has forecast no increase in distributions for the 2004 financial year.<sup>3</sup>

Investa commends the Offer to you. If you accept the Offer you will receive cash as well as securities in Investa, which are backed by a more diversified portfolio than POF's portfolio and, in our view, offer greater growth prospects than POF units.

Investa, an ASX 100 company, announced its offer for POF on 26 May 2003. No other offer has emerged since Investa's bid was announced and BTFM directors have said in the Target's Statement that they do not know if a superior offer will arise.

The key benefits of Investa's unconditional Offer are summarised as follows:

Offer price premium to POF's pre-bid price (based on Investa's Average Trading Price of \$2.11)	18.0%	✓
Forecast increase in 2003/2004 income distributions, should you accept the Offer	14.0% to 16.4%	✓
Offer consideration paid promptly after your acceptance	5 business days	✓

**Further, as has been pointed out by the Independent Expert engaged by BTFM, in the absence of Investa's Offer or another takeover offer for POF, the trading price of POF units is likely to fall to levels below those at which POF has traded since Investa acquired its initial 8.4% stake on 21 May 2003. The closing price of POF units on the ASX on 20 May 2003 was \$1.37.**

**Investa's unconditional offer is scheduled to close in just 11 days at 7.00pm on 21 July 2003. Accepting unitholders will be paid the Offer consideration no later than 5 business days after Investa's receipt of a valid acceptance.**

We enclose a further acceptance form and reply paid envelope for your convenience.

Should you have any questions relating to the Offer please contact the Investa Offer Information Line on 1300 302 124 as soon as possible.

We look forward to soon welcoming you as an investor in the Investa Property Group.

Yours sincerely



**Ian Payne**  
**Chairman**

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<sup>3</sup> Refer Target's Statement, Independent Expert Report, s4.5.

## **Investa Properties Limited (“Investa” or “IPG”) Offer for Principal Office Fund (“POF”)**

**Investa provides the following information in response to issues raised in the POF Target’s Statement in relation to the Investa Offer.**

### **INVESTA OFFER: AN 18% PREMIUM TO THE POF PRICE**

- Since Investa’s Offer was announced, its value (based on the trading price of Investa securities) has moved in the range of \$1.69 and \$1.54 per POF unit.
- At \$1.63 per POF unit<sup>1</sup>, the offer represents an 18% premium to what the market had been prepared to pay for POF units on a volume weighted average basis in the 5 day period prior to Investa buying its initial stake in POF on 21 May 2003.
- In the 12 months to 20 May 2003 the volume weighted average trading price of POF was \$1.45, and was as low as \$1.25 in March this year<sup>2</sup>.

### **POF’S PRICE LIKELY TO FALL IN THE ABSENCE OF ANOTHER OFFER**

- The directors of BT Funds Management Limited (BTFML) have said that they do not know whether a superior bid for POF will arise.
- The Independent Expert<sup>3</sup> said that:  
*"In the absence of another offer, it is likely that POF units would trade below the trading prices achieved since 20 May 2003, the day before Investa acquired its holding in POF and the market started to price the possibility of a takeover offer into the POF unit price."*

The volume weighted average trading price for POF units over the 5 days before Investa acquired its strategic stake on 21 May 2003 was \$1.38.

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<sup>1</sup> Based on the Volume Weighted Average trading Price (“VWAP”) of Investa since it acquired its initial stake in POF.

<sup>2</sup> See Bidder’s Statement, s3.3(b), Graph

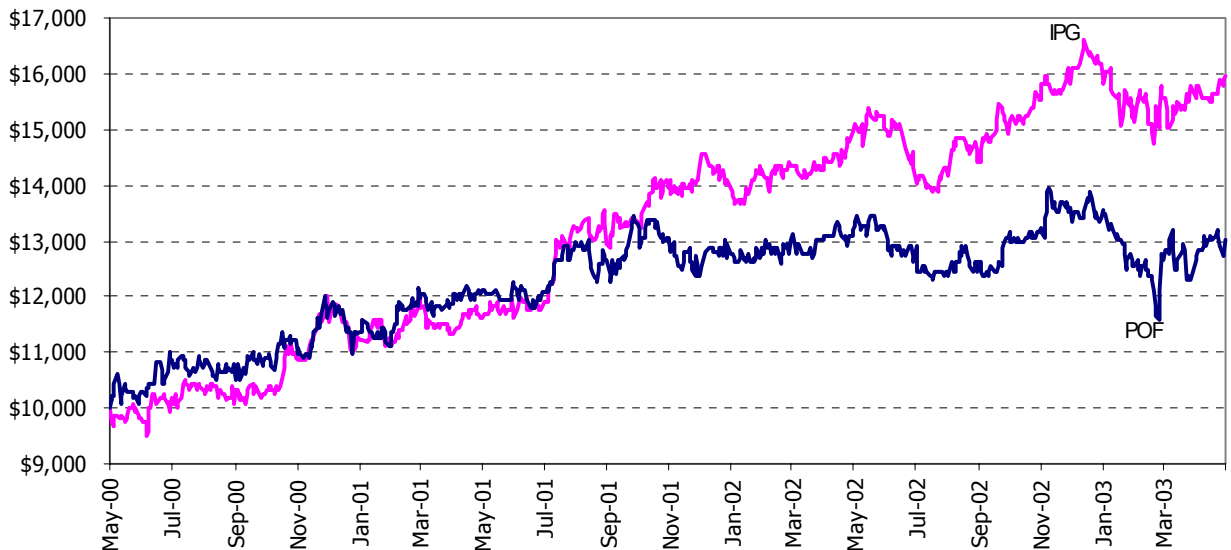
<sup>3</sup> See Target’s Statement, Independent Experts Report, s10.3

**PREMIUM TO NET TANGIBLE ASSET BACKING (NTA):  
 INVESTA CONSISTENTLY TRADES AT A PREMIUM - POF TRADES AT A DISCOUNT**

- Information in the Independent Expert's report<sup>4</sup>, which was included in the Target's Statement, shows that POF units traded at the steepest discount of 12.6% to NTA compared to its peers<sup>5</sup>, reflecting, we believe, some of the medium term risks associated with POF's income.
- At 30 June 2003 IPG securities traded at an 11.2% premium to NTA reflecting, we believe, the market's positive view of the quality of its businesses and earnings.
- The Independent Expert's report also shows that as at 30 June 2003, most specialist Office Trusts traded at an average discount to their stated NTA of 2.7%<sup>6</sup>. For the period from 1 January 2002 to 30 June 2003, POF traded at an average 6.3% discount to NTA while Investa traded at a 19.9% premium<sup>7</sup>.

**DISTRIBUTION GROWTH:  
 INVESTA HAS DELIVERED DOUBLE POF'S GROWTH**

- Investa has delivered superior total returns to its securityholders compared to POF. The chart shows the value of \$10,000 invested in either Investa or POF over three years.<sup>8</sup>



<sup>4</sup> See Target's Statement, Independent Expert's Report, s3.2.5

<sup>5</sup> Peers include other externally managed listed office funds

<sup>6</sup> See Target's Statement, Independent Expert's Report s8.2.2 Table 18

<sup>7</sup> See Target's Statement, Independent Expert's report s3.2.5 Table 2

<sup>8</sup> See Bidder's Statement, page 7. Refers to the three years to 21 May, 2003

- Investa has also delivered a 21.4% compound increase in distributions since 1998, almost double the compound increase delivered to POF unitholders of 10.8%.

<b>% change in distribution year on year</b>					
	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FYE02</b>	<b>FYE03</b>
<b>Investa</b>	<b>1.2%</b>	<b>0.8%</b>	<b>5.3%</b>	<b>6.9%</b>	<b>5.8%</b>
<b>POF</b>	<b>3.8%</b>	<b>0.0%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>0.5%</b>

- POF's apparent 'distribution stability' referred to by the Independent Expert is in part attributable to distributions paid out of POF investors' capital. The Independent Expert has forecast that 12.8% of the 11.0 cents to be distributed to POF unitholders in the 2004 financial year will be from capital, not from property income.

#### **PORTFOLIO 'QUALITY':**

##### **DIVERSIFIED PORTFOLIO AND BUSINESS RISKS, KEYS TO INVESTMENT PERFORMANCE**

- Both the POF portfolio and the Investa portfolio contain a range of grades of property and would be complementary if put together. Investors accepting the Offer will gain access to a broader range of assets.
- BTFML has disclosed that the POF portfolio has delivered a total return of 10% per annum<sup>9</sup> over the two years to 30 June 2002. In the same period the IPG portfolio has contributed a total return of 13.6% per annum. Of POF's entire portfolio, the property contributing the highest performance over that period has been a B-Grade asset, 31 Market Street, Sydney – underscoring the importance of having a broad diversification of asset grades in a portfolio.
- Notwithstanding this, the focus of investors should be on return per security as the ultimate measure of performance. For the three years to 1 May 2003, an investment in IPG delivered a compound annual return of 17.0%, nearly twice POF's return of 8.6% (taking into account distributions and security movements).<sup>10</sup>

#### **DEVELOPMENT RISK:**

##### **DIVERSIFIED FOR INVESTA, CONCENTRATED FOR POF**

IPG has a range of business activities through which income from the investment portfolio is supplemented and diversified.

- Investa's current development projects represent 5% of total assets, spread across a range of projects and market sectors.

<sup>9</sup> Refer POF June 2002 Results Summary

<sup>10</sup> See Bidder's Statement, p8

- POF holders are presently subject to the concentrated development risk represented by a single asset at 126 Phillip St, Sydney. We believe this is a \$450 million office project commitment that on completion will represent 21% of POF's assets, as at 30 June 2003.

#### **POF GEARING TO RISE TO 30% ON COMPLETION OF 126 PHILLIP ST**

- Investa has outlined how it will reduce gearing to around 30% once its offer for POF is completed.
- The Independent Expert has stated POF's gearing level as 20% at June 2003, but has failed to state that this level will increase to 30% on completion of the 126 Phillip Street development.

#### **INTEGRATION:**

##### **STABLE, AUSTRALIAN FOCUSED INVESTA TEAM**

- Investa has identified synergy benefits of \$11.2 million from full ownership of POF, the majority of which arises in one step from the elimination of management fees currently paid to Principal Real Estate Investors (Australia) Limited – the current manager of POF. Even at 50.1% ownership of POF, IPG has identified \$6.1 million of synergy benefits.<sup>11</sup>
- Investa has an experienced Australian based team working full time on its portfolios. While Principal has made a number of staff appointments over the last three months, of the 12 people listed in the 2002 Annual Report as responsible for the management of POF, only seven remain today.
- As a further set back to its Australian operations, the Principal group is reported to have lost a mandate from Westpac to manage a property securities fund, operated by BT Funds Management . (Australian Financial Review 3 July 2003 – *'BT dumps Principal as manager of \$500 m portfolio'*).

#### **Investa's Unconditional Offer is scheduled to close at 7.00pm, July 21 2003. Valid acceptance forms must be received by that time.**

Should you have any questions relating to the Offer please contact the Investa Offer Information line on **1300 302 124** as soon as possible.

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<sup>11</sup> See Bidder's Statement 5.2