

GANDEL RETAIL TRUST ARSN 090 150 280

Responsible Entity: Gandel Management Limited

ABN 98 006 996 229

REGISTERED OFFICE:

LEVEL 2, PROFESSIONAL SUITES, CHADSTONE SHOPPING CENTRE

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19 September 2002

Dear Unitholder,

As you would be aware, in recent weeks there have been a number of developments, and considerable publicity, in relation to the proposed merger of the Colonial First State Property Trust Group (*CFT*) with the Gandel Retail Trust (*GAN*) and the Commonwealth Property Office Fund (*CPA*) (the *Proposal*). These developments have resulted in the need, on two occasions, to adjourn the meeting of GAN Unitholders, which was originally scheduled to take place on 3 September 2002.

I am writing to you to update you on the Proposal, and to provide you with details of the *GAN Unitholders' meeting to be reconvened on Monday, 30 September 2002 to consider the Proposal*. The revised timetable for the Proposal is set out on page 2 of this letter.

For the reasons set out below, your responsible entity, Gandel Management Limited (GML), and its independent directors continue to believe that the Proposal is in the best interests of GAN Unitholders, and **recommend that you vote in favour of the Proposal** at the GAN Unitholders' meeting.

Enhancements to the Proposal

The original Proposal is described in Section 1 of the Notice of Meeting and Explanatory Memorandum, dated 30 July 2002 (*GAN Notice of Meeting*), which you would have received.

In response to Mirvac Fund Limited's (*Mirvac*) original bid and subsequent increased bid for CFT, the Gandel group of companies (the *Gandel Group*) and the Commonwealth Bank Group (the *Bank*) have undertaken to enhance the original Proposal in a manner that will benefit unitholders of GAN, CFT and CPA. Two sets of enhancements have been announced by the Gandel Group and the Bank. The first set was described in my letter to you dated 29 August 2002. Those measures were further enhanced on 13 September 2002. Attached to this letter is a document setting out details of the enhancements, as they currently stand, and how they will impact on you. In summary, the following four enhancements have been offered:

- a reduction in the GAN trust management fees, through the introduction of a lower base fee and a capped performance-linked fee;
- an additional income stream to GAN related to the distributed earnings of Gandel Retail Management;
- a reduction in the CPA trust management fees; and
- a cash payment to CFT unitholders, funded by the Gandel Group and the Commonwealth Bank of Australia.

Distribution Forecasts

GML confirms that GAN's forecast annual distribution growth is over 7% in 2002/03 relative to 2001/02 should the enhanced Proposal be implemented.

The revised forecast distributions for GAN, in light of the enhancements, are as previously advised on 29 August 2002:

	6 mths ending 31 Dec 2002 (cents per unit)	6 mths ending 30 Jun 2003 (cents per unit)	6 mths ending 31 Dec 2003 (cents per unit)	FY2003 (cents per unit)
Proposal is not implemented	4.52	4.58	4.65	9.10
Proposal (with enhancements) is implemented*	4.78	4.88	4.97	9.66

* Based on trust management fee of 0.45% per annum of gross asset value, an additional 7% interest in the income stream of Gandel Retail Management, and assuming a neutral performance fee outcome.

Details of the Unitholders' Meeting

As noted above, the meeting of GAN Unitholders, which was originally scheduled to take place on 3 September 2002, has already been adjourned twice.

Details of the GAN Unitholders' meeting, at which you will have the opportunity to vote on the Proposal (and the other two resolutions set out in the GAN Notice of Meeting), are as follows:

Time: 3:00 p.m.
Date: Monday 30 September 2002
Place: Auditorium
 Level 2
 Melbourne Exhibition Centre
 2 Clarendon Street
 Southbank, Victoria

You are encouraged to attend and vote at the meeting. If you are unable to attend the meeting, you should follow the instructions below on completing and lodging a proxy form.

Proxy Forms

Enclosed with this letter is a new personalised proxy form.

If you have already lodged a proxy form in relation to the meeting, you have the following options:

- do nothing, in which case your lodged proxy form will be effective for the meeting on 30 September 2002; or
- revoke your proxy form at any time before the meeting on 30 September 2002, by sending or faxing written revocation to the Unit Registry:

Computershare Investor Services Pty Limited
 GPO Box 242
 Melbourne Victoria 3001
 Fax: (03) 9473 2555

If you have not already lodged a proxy form, or if you revoke your proxy form, you may send or fax your proxy form (which is enclosed with this letter) to the Unit Registry (see details above). Proxy forms must be received by the Unit Registry no later than 3:00 p.m. Saturday 28 September 2002.

Revised Timetable ⁽¹⁾

The revised timetable for the Proposal is set out below:

Saturday 28 September 2002 (3:00 p.m. EST)	Last day for lodgement of proxies
Saturday 28 September 2002 (7:00 p.m. EST)	Record date for voting entitlements
Monday 30 September 2002 (whole day)	Halt on ASX trading of GAN, CFT and CPA units
Monday 30 September 2002 (3:00 p.m. EST)	Meeting of GAN Unitholders
Thursday 3 October 2002	Proposal Completion Date ⁽²⁾
On or about Tuesday 8 October 2002	Allotment of new GAN units
On or about Thursday 10 October 2002	ASX Quotation of new GAN units ⁽³⁾

(1) Dates are indicative only and may be subject to change.

(2) The Proposal will only be implemented if resolutions at the meetings of unitholders of GAN, CFT and CPA are approved and the entities involved in the Proposal are satisfied that it can proceed. The CFT and CPA unitholder meetings are scheduled to take place on the same day as the GAN unitholder meeting.

(3) Conditional on ASX approval.

Updated Disclosures

As a result of the developments described above, the following updated information is provided:

- The new record date for determining the entitlement of CFT unitholders to participate in the Proposal (including the entitlement to receive new GAN units) is 10:00 p.m. on Wednesday 2 October 2002.
- Under the revised timetable, for the purposes of a poll, the value of a GAN unit will be equal to the last sale price on the ASX on 27 September 2002, being the last trading day immediately prior to the meeting of GAN unitholders.
- The provisions of the Holders Agreement referred to in Section 11.2 of the GAN Notice of Meeting will be amended to make provision for the arrangements underpinning the payment of the cash enhancement to CFT unitholders by the Gandel Group and the Bank. Those arrangements do not affect GAN or involve the giving of any financial benefit by GAN, and will only involve financial detriment to related parties of GML and Commonwealth Managed Investments Limited (*CMIL*).
- The Takeovers Panel handed down its final determination on Mirvac's applications on 12 September 2002. The Panel rejected Mirvac's proposition that the merger of GAN, CPA and CFT could not proceed under the structure put to unitholders, and confirmed that GAN, CPA and CFT are free to proceed with unitholder meetings to consider the Proposal, provided certain supplementary disclosures are made by the responsible entity of CFT to CFT unitholders. The responsible entity of CFT has issued a supplementary notice to CFT unitholders, containing the additional disclosures sought by the Panel. A copy of the supplementary notice has also been lodged with ASX.

Recommendation

In the GAN Notice of Meeting, a copy of the report of the Independent Expert, BDO Corporate Finance Pty Limited, was reproduced in full. The Independent Expert concluded that "...the Proposal is fair and reasonable and is in the best interests of the Unitholders". As the Proposal has not changed (and aspects of it have only been enhanced from a GAN Unitholder's point of view), GML is not aware of any reason why that conclusion would be any different today.

As previously advised, GML and its independent directors believe that the Proposal is fair and reasonable and in the best interests of GAN Unitholders, and that the enhancements provide further benefits to GAN Unitholders. Accordingly, GML and its independent directors confirm their previous recommendation that GAN Unitholders vote in favour of all the resolutions to be considered at the meeting of GAN unitholders.

Communication of any further developments

It has become evident, since my last letter to you of 6 September 2002, that circumstances can change very rapidly. This letter has been prepared on the basis of information known to the Board of GML at the time of writing. Given the amount of time it takes to prepare and mail out a letter such as this, it may not be possible to write to you individually again before the meeting, even if there are further developments. If there are developments of which the responsible entity believes you should be made aware, we will post material to our website and, where appropriate, make announcements to the ASX. I strongly urge you to keep abreast of any developments through the press, through the GAN website www.gandel.com.au or through our Investor Information Service on 1800 080 030 (freecall). Any developments of which you should be aware will also be announced at the meeting on 30 September 2002.

Unitholder Enquiries

If you have any questions, please contact our Investor Information Service freecall on 1800 080 030.

Yours sincerely,



John Gandel, AO
Chairman

The Enhancements to the Proposal and their Potential Impact

Set out below are details of the four enhancements to the original Proposal, which is described in Section 1 of the Notice of Meeting and Explanatory Memorandum, dated 30 July 2002 (*GAN Notice of Meeting*). Terms that are not defined in this document have the meanings given to them in the GAN Notice of Meeting. The enhancements are being offered and funded by the Gandel group of companies (the *Gandel Group*) and the Commonwealth Bank Group (the *Bank*).

First Enhancement: Reduction of GAN trust management fees

Currently, Gandel Management Limited (*GML*), the responsible entity of GAN, receives a trust management fee of 0.60% per annum of GAN's gross asset value.

Under the original Proposal (see page 8 of the GAN Notice of Meeting), Commonwealth Managed Investments Limited (*CMIL*) (the proposed new responsible entity of GAN) had agreed to the following trust management fee structure:

- a fee of 0.60% per annum of GAN's gross asset value up to \$3.5 billion; and
- a fee of 0.55% per annum of GAN's gross asset value above \$3.5 billion.

In addition, CMIL had agreed to reduce its fee by up to \$1.3 million in the year ended 30 June 2003 to the extent necessary to assist GAN achieve the forecast earnings in that period, as set out on page 8 of the GAN Notice of Meeting.

Under the enhanced Proposal, CMIL has now agreed to:

- reduce its base trust management fee from 0.60% per annum of GAN's gross asset value to 0.45% per annum;
- introduce a performance fee component, which is capped so that, in aggregate with the base fee component, the overall trust management fee does not exceed 0.60% per annum of GAN's gross asset value up to \$3.5 billion, and 0.55% per annum of the GAN's gross asset value above \$3.5 billion; and
- (as under the original Proposal) reduce its fee by up to \$1.3 million in the year ended 30 June 2003 if necessary for GAN to achieve the revised forecast earnings.

The effect of the introduction of a capped performance-linked fee component is that, while the overall trust management fee levels may be the same as those under the original Proposal, CMIL will only be entitled to be paid at those rates if GAN *outperforms the benchmark index*.

It is important that you understand how the proposed performance fee component is to be calculated. The performance fee will:

- only be paid to CMIL if GAN's total return performance (income and capital appreciation) exceeds the S&P/ASX 200 Retail Property Accumulation Index (excluding GAN) over the performance period;
- be calculated in relation to each six-month period commencing 1 July and 1 January;
- be payable in cash in arrears on a six-monthly basis (together with the base fee);
- have a tiered structure, so that (subject to the cap described above) CMIL will be entitled to a fee equal to:
 - 5% of the first 2% per annum of outperformance; and
 - an additional 15% of the outperformance in excess of 2% per annum,over the six-monthly performance period compared to the S&P/ASX 200 Retail Property Accumulation Index (excluding GAN).

As a result of the cap, CMIL cannot receive more than 0.60% per annum of GAN's gross asset value up to \$3.5 billion, and 0.55% per annum of the GAN's gross asset value above \$3.5 billion. Any excess performance above these limits will be carried forward to the next performance period and will be taken into account in calculating the total fee for the next performance period. At the same time, any underperformance will be carried forward and will need to be "earned back" before CMIL is entitled to performance fees.

The trust management fee structure under the enhanced Proposal provides a significant incentive for CMIL, as it will need to achieve consistent outperformance to maintain the fee levels under the original Proposal.

Clearly, the reduction of the trust management base fee, and the additional incentives resulting from the introduction of a capped performance fee component, provide benefits to GAN Unitholders.

If you would like to have a more detailed understanding of the proposed trust management fee structure under the enhanced Proposal, you may request a copy of the detailed formulae for calculating the base fee and the performance fee by contacting our Investor Information Service on 1800 080 030 (freecall).

Second Enhancement: Additional income stream related to Gandel Retail Management

The second enhancement is that, for a period of 5 years, GAN Unitholders will receive an additional amount equal to approximately 7% of the distributed earnings of Gandel Retail Management (*GRM*). Initially, this income stream to GAN will increase from approximately 28% to approximately 35% of the distributed earnings of GRM.

Under the Proposal, GRM will be appointed to manage, lease and develop the assets of GAN, and other external retail assets to the value of approximately \$5 billion.

Clearly, this enhancement provides benefits to existing GAN Unitholders.

Third Enhancement: Reduction of CPA trust management fees

The third enhancement to the Proposal is that CMIL, as the responsible entity of CPA, will reduce its trust management fees by \$2.5 million in respect of the year ending 30 June 2004 as a once only rebate.

This enhancement has no impact on GAN Unitholders, except that it may increase the likelihood that the Proposal will succeed (at no cost to GAN).

Fourth Enhancement: Cash payment to CFT unitholders

The fourth enhancement is that the Gandel Group and the Commonwealth Bank of Australia will procure the payment in cash to CFT unitholders of 25.00 cents per CFT unit (as additional consideration to that being made available to CFT unitholders by GAN and CPA under the original Proposal). This cash payment will not be made out of GAN's funds.

This enhancement has no impact on GAN Unitholders, except that it may increase the likelihood that the Proposal will succeed (at no cost to GAN).

Availability of the enhancements

The above enhancements have been offered by the Gandel Group and the Bank on the basis that they are available until the first to occur of:

- 1 October 2002 (if the meeting of CFT unitholders is not reconvened on 30 September 2002, as scheduled, or if the meeting is reconvened on that day and CFT unitholders reject the enhanced Proposal); and
- the day on which the responsible entity of either CFT, GAN or CPA declines to recommend to its respective unitholders, or withdraws its recommendation to its respective unitholders, of the enhanced Proposal,

after which the Gandel Group and the Bank may withdraw the enhancements.

Further, and in any event, no party will be obliged to implement the Proposal if it is not implemented by 15 October 2002, or if the responsible entity of any of CFT, GAN or CPA declines to recommend, or withdraws its recommendation of, the Proposal.

Comparison of enhanced Proposal and Mirvac bid for CFT

As at the date of this letter, the enhanced Proposal represents a value of \$2.43 per CFT unit, based on the Volume Weighted Average Price (*VWAP*) of CPA and GAN on 17 September 2002. This compares to the value of the Mirvac bid of \$2.41 per CFT unit, based on the VWAP of the Mirvac Group on 17 September 2002.

The responsible entity of CFT has issued an independent expert's report to CFT unitholders, comparing the enhanced Proposal and the Mirvac bid from the CFT unitholders' point of view. As at the date of this letter, CFT's responsible entity continues to recommend that CFT unitholders vote in favour of the Proposal.

No effect on Resolutions 2 and 3

The first resolution to be put to GAN Unitholders relates to the Proposal. Resolutions 2 and 3, which, respectively, relate to the Broadmeadows Contribution Agreement and the proposed amendments to the GAN Constitution, are not affected by the enhancements to the Proposal.

Unitholder Enquiries

If you have any questions, please contact your financial adviser or call the GAN Investor Information Service on 1800 080 030. Copies of previous announcements and other information can be found on the GAN website www.gandel.com.au.