GZI Real Estate Investment Trust

越秀房地產投資信託基金

(Stock Code: 405)

2005 Annual Report

Contents

Our Mission

The key objective of GZI REIT Asset Management Limited ("the Manager") for GZI REAL ESTATE INVESTMENT TRUST ("GZI REIT") is to provide unitholders of GZI REIT (the "Unitholders") with stable distributions per unit of GZI REIT ("Unit") with the potential for sustainable long term growth. The Manager intends to accomplish this objective through investing in income producing real estate which is primarily used for retail, office and other commercial purposes, in Guangdong Province in the People's Republic of China (the "PRC").

2006

Event	Expected Date
Publication of 2005 Annual Report	April 2006
2005 Annual general meeting	June 2006
Publication of 2006 Interim Report	August 2006
Payment of distribution for period from date of listing (21 December, 2005) until 31 December, 2005	November 2006
Payment of distribution for half-year ending 30 June, 2006	November 2006

2007

Event	Expected Date
Publication of 2006 Annual Report	April 2007
Payment of distribution for half-year ending 31 December, 2006	May 2007

The Listing of GZI REIT

The successful listing of GZI REIT on The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange") on 21 December, 2005 ("the Listing Date") marked another milestone in the development of the real estate investment trust ("REIT") market in Hong Kong. Furthermore, GZI REIT is the first REIT which invests in properties in Mainland of the PRC. The initial public offer of GZI REIT ("the IPO") attracted enormous interest from investors in Hong Kong and overseas, with subscription rates of over 496 times and over 74 times for its Hong Kong public offer and international placing respectively.

GZI REIT has a business focus on the retail and office property market in Guangzhou, the second largest economy in the Pearl River Delta region (after Hong Kong). GZI REIT holds units of four properties, namely the White Horse Building, Fortune Plaza, City Development Plaza, and Victory Plaza (collectively "the Properties"). The Properties have a total gross floor area ("GFA") of 160,651 square meters and are all located in prime areas in Guangzhou, one in the Yue Xiu District and the other three in the Tianhe District, and are all adjacent to major transportation networks.

Key Investment Highlights

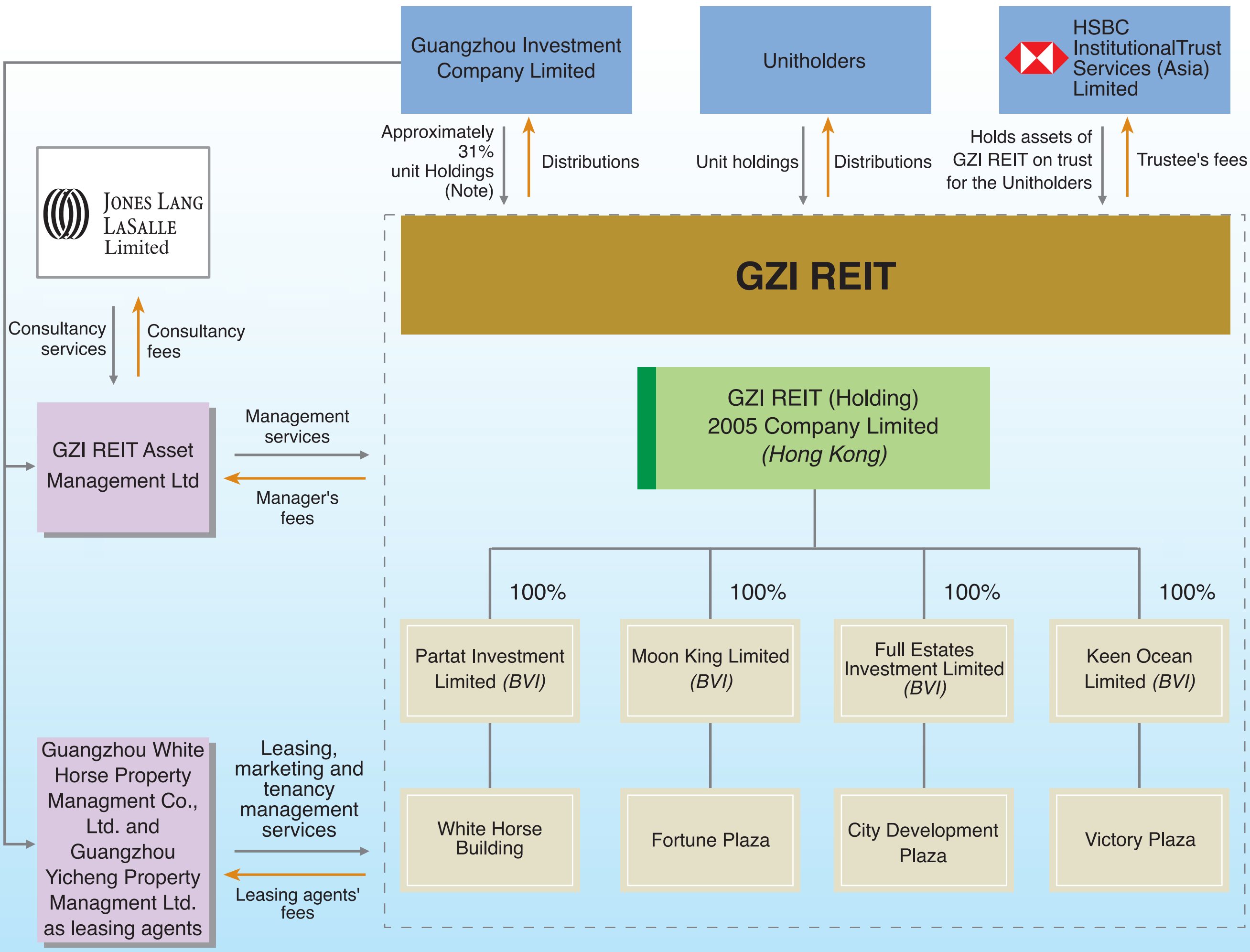
- Robust local economy
- High quality portfolio
- Attractive yield
- Experienced management with strong local expertise
- Focused growth strategy
- First REIT in the world which invests in properties in Mainland of the PRC

Profile of GZI REIT

GZI REIT is a Hong Kong real estate investment trust constituted by a trust deed entered into on 7 December, 2005 between HSBC Institutional Trust Services (Asia) Limited as the trustee ("the Trustee") and the Manager ("the Trust Deed").

GZI REIT is a Hong Kong collective investment scheme authorised under Section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") by the Securities and Futures Commission of Hong Kong ("the SFC").

GZI REIT's property portfolio consists of four commercial properties located in Guangzhou and GZI REIT is the first REIT which invests in properties in Mainland of the PRC.



Note: This represents GZI's unit holdings in GZI REIT as at 18 April, 2006.

Year Ended 31 December, 2005	Actual 2005
Intended distributions per Unit (Notes a and b)	4 CENTS
Earnings per Unit (Note b)	4 CENTS
Net asset value per Unit	HK$3.016
Net tangible assets per Unit	HK$2.863
Offer price per Unit upon listing	HK$3.075
Closing price per Unit at 31 December, 2005	HK$3.450
Yield per Unit based on offer price (Note b)	1.32%
Yield per Unit based on closing price at 31 December, 2005 (Note b)	1.18%
Number of Units in issue as at 31 December, 2005	1,000,000,000 Units
Highest premium of traded price to net asset value (Note c)	HK$ 0.759
Highest discount of traded price to net asset value (Note c)	N/A
Total assets	HK$4,466 million
Total liabilities	HK$1,450 million
Net assets attributable to Unitholders	HK$3,016 million
Net tangible Assets (net assets minus goodwill)	HK$2,863 million
Total borrowings as a percentage of gross assets (Note d)	29%
Gross liabilities as a percentage of gross assets (Note e)	33%
Net operating income (Note b)	HKD5.682 million

Note a: This represents the Manager's intention to make a distribution of 100% on Total Distributable Income.
Total Distributable Income as defined in the Trust Deed is the amount calculated by the Manager as representing the consolidated audited profit after tax of GZI REIT as adjusted for accounting purposes to eliminate the effects of accounting adjustments.

Note b: These represent results for 11 days from the Listing Date to 31 December, 2005.

Note c: These relate to traded prices during the 11 days from the Listing Date to 31 December, 2005.

Note d: Total borrowings is calculated based on bank loan, but excluding capitalisation of debt-related expenses.

Note e: Gross liabilities is calculated based on total liabilities, but excluding capitalisation of debt-related expenses.

Total Distributable Income

TOTAL DISTRIBUTABLE INCOME FOR THE PERIOD

The Total Distributable Income of GZI REIT to Unitholders for the period from the Listing Date to 31 December, 2005 ("the Relevant Period") amounted to approximately HK$40,543,000, representing results for 11 days.

Note: Total Distributable Income as defined in the Trust Deed is the amount calculated by the Manager as representing the consolidated audited profit after tax of GZI REIT as adjusted for accounting purposes to eliminate the effects of accounting adjustments.

Distribution

In accordance with the Trust Deed, GZI REIT is required to distribute no less than 90% of Total Distributable Income to Unitholders. The Manager's policy is to distribute to Unitholders 100% of GZI REIT's Total Distributable Income (as defined in the Trust Deed) for each of the 2006, 2007 and 2008 financial years and thereafter at least 90% of Total Distributable Income (as defined in the Trust Deed) in each financial year.

After due and careful consideration and with a view to provide Unitholders with maximum returns, the Manager intends to distribute to Unitholders 100% of GZI REIT's Total Distributable Income (as defined in the Trust Deed) for the financial period ended 31 December, 2005, which amounted to approximately HK$40,543,000.

The Manager confirms that the intended distribution referred to above composes of only profit after tax and does not include any elements from the capital of GZI REIT. The Manager has calculated the Total Distributable Income based on GZI REIT's consolidated audited profit after tax and considered that no adjustments were required.

Pursuant to the Trust Deed, distribution in respect of the financial period ended 31 December, 2005 shall be paid at the same time as the payment of the first distribution made during the financial year ending on 31 December, 2006, or in any case, no later than 30 November, 2006.

Accordingly, distribution for the Relevant Period will be distributed together with the distribution for the first half year of 2006 and will be paid to persons who are Unitholders as at the record date for the interim distribution for the period from 1 January, 2006 to 30 June, 2006. As a result, Unitholders who are not recorded as holders of Units on such record date will not be entitled to receive any distribution for the Relevant Period.

The first distribution are expected to be made in November, 2006 and all distributions will be made in Hong Kong dollars.

Through investing into investment properties including retail, offices and other commercial properties located in the Pearl River Delta region, GZI REIT strives to provide all Unitholders long-term sustainable growth and returns, and provide investors an opportunity to participate in property market in mainland of the PRC.

Benefiting from the overall progressive development of the Pearl River Delta region, including a continued influx of multinational corporations and development of the service industry, the Gross Domestic Product ("GDP") of Guangzhou Municipality grew approximately 13%, thereby creating a momentum for growth in potential demand for commercial properties. Growth in per capita income and consumption has also sped up the development of the Guangzhou consumer market, which also benefits the large shopping malls. In 2005, the Guangzhou property market witnessed a growth in rental and property prices of around 10% and 11%, respectively; these indicators reflect the future prospects of Guangzhou property market.

Currently, the Properties are all located in Guangzhou Municipality. They include White Horse Building, Fortune Plaza, City Development Plaza and Victory Plaza, with a total gross floor area of 160,651 square metres. The Properties are all positioned in prime locations with good access to transport and major roads, and are renowned for the quality of property management and have received various awards in relation to such achievements. Good service quality together with excellent facilities have resulted in these properties being well-received by tenants. Various famous multinational corporations have secured tenancies in the Properties, and occupancy rates have been growing consistently. As at 31 December, 2005, the overall occupancy rate of these properties was around 95.5%.

In order to maintain financial stability for the investment portfolio, GZI REIT has adopted a prudent approach to financial risk management, with hedged borrowings controlled at no more than 33%, with a comfortable margin compared to the allowed maximum gearing of 45% under the Hong Kong Code on Real Estate Investment Trusts ("the REIT Code").

Looking into the future, we are committed to the strategy of active value enhancement, with an eye on selective acquisition of properties with sustainable growth in return, which will include making good use of the deed of right of first refusal ("the Right of First Refusal") obtained from Guangzhou Investment Company Limited ("GZI") to further enhance the opportunities to acquire good quality property.

GZI REIT will at the same time continue to improve its own operations and its quality of corporate governance, to actively maintain a prudent approach to financial management, and to improve returns from its property portfolio through asset enhancement. With the support provided by our property consultant, Jones Lang LaSalle, the Manager will strive to improve internal control and risk management discipline, and will provide better corporate governance and investment returns to GZI REIT.

We take this opportunity to express our greatest gratitude to all directors, senior management and staff, for their dedication to the success of GZI REIT and we also take this opportunity to thank all the Unitholders, tenants and business partners for their continued support of GZI REIT.

Liang Ningguang
Chairman

Hong Kong, 18 April, 2006

BUSINESS REVIEW

Since listing, operations of GZI REIT have been in stable development, with rent collection proceeding smoothly, without any default situation.

Active Asset Acquisition Strategy

At the moment, the Pearl River Delta region of Guangdong Province, including the Guangzhou Municipality, is in robust development, and provides an ideal current operating environment as well as a good future expansion opportunity for GZI REIT.

In 2005, Guangzhou GDP reached the mark of RMB500 billion, representing an increase of approximatley 13% as compared to 2004. Guangzhou's urban resident disposal income per capita was approximately RMB18,287, representing an increase of approximately 8.3% year on year. The tertiary industry, comprising mainly service industries, had contributed approximately 53% to the overall GDP growth of Guangzhou.

We will actively seek expansion opportunities, and acquire properties with sustainable profit growth potential, including, but not limited to, the acquisition of existing or newly completed projects from GZI through the exercise of the Right of First Refusal. These measures are aimed at reducing the reliance on a single project or major tenants, and to help maintain a stable property income.

Pro-active Leasing Policy

In terms of asset management, we adopt a strategy of active and aggressive management in order to achieve maximum asset value enhancement and improve return for all Unitholders. We will make reference to the market value and the Properties' endowment to raise rent and to control expenses. Together with the ongoing improvement of the tenant mix, we will continue to strive to raise occupancy rates.

With the strategy for rent rate and occupancy rate enhancement, we will continue to improve the lease expiry structure, in order to increase the resilience of GZI REIT's operations.

Looking into the future, we will emphasize acquisition, active asset management and refine capital structure, and rely on these strategies to enhance asset return for GZI REIT, realizing the objective of stable and growing return to Unitholders. In terms of specific operating strategy, we have completed the conversion of the 8th and 9th Floor of White Horse Building. We will also strive to increase the occupancy rate of Fortune Plaza, maintain the occupancy rate of City Development Plaza while improving the tenancy mix and the business mix of Victory Plaza with an aim to enhance its competitiveness.

Furthermore, through staff training we will strive to improve service quality, and will aim at achieving an international professional management standard, actively implementing retention programmes for quality tenants, refining management details in order to attract more tenants and increase asset value, thereby achieving better returns to all Unitholders.

Trust Review

FINANCIAL REVIEW

Intended Distribution Per Unit

The Properties performed well during the Relevant Period with intended distribution per Unit ("the DPU") exceeding GZI REIT's profit forecast for the Relevant Period ("the Profit Forecast") as disclosed in the offering circular of GZI REIT dated 12 December, 2005 ("the Offering Circular") by 25 times at HK$0.0405. Based on the closing price of the Units as at 31 December, 2005 of HK$3.450, the DPU calculated based on only the 11 days during the Relevant Period represented a yield of 1.18%, as compared to the yield of 0.046% as disclosed in the Profit Forecast. Using the IPO price of HK$3.075, the DPU calculated based on only the 11 days during the Relevant Period represented a yield of 1.32%, as compared to the yield of 0.052% as disclosed in the Profit Forecast. The substantial increase in DPU is mainly due to the non-recurring interest income in the sum of HK$41.128 million generated from funds received for units applications during the IPO of GZI REIT which had attracted enormous interest from investors in Hong Kong and overseas, with subscription rates of over 496 times for its Hong Kong public offering.

Unit Activity

Since the listing of GZI REIT on 21 December, 2005, investors have enjoyed Unit price appreciation from the IPO price of HK$3.075 to year-end closing of HK$3.450, representing an increase of 12%.

GZI REIT's Unit price reached a high of HK$3.775 and a low of HK$3.450 during the Relevant Period. The volume transacted during the Relevant Period was 572.983 million Units, equivalent to an average of 95.497 million Units daily.

Asset Unit

The net asset value per Unit as at 31 December, 2005 was HK$3.016, which represents an increase of 5.7% as compared to net asset value per Unit of HK$2.853 as disclosed in the unaudited proforma balance sheets as at 7 December, 2005, the date of establishment of GZI REIT based on the maximum offer price of HK$3.075 as disclosed in Appendix III of the Offering Circular. The net tangible asset value per Unit as at 31 December, 2005 was HK$2.863, which represents an increase of 3.2% as compared to the net tangible asset per Unit of HK$2.775 as disclosed in the unaudited proforma balance sheet of GZI REIT as at 7 December, 2005 based on maximum offer price of HK$3.075 as disclosed in Appendix III of the Offering Circular.

The increase in the net asset value per unit was mainly attributable to the increase in the valuation of the Properties as at 31 December, 2005 by 1.2% to HK$4,053.8 million as compared to a valuation of HK$4,005.0 million as at 30 September, 2005 and the increase in profit after tax and before transactions with Unitholders of HK$40,543,000. The subject valuation was prepared based on an average of the values derived using the income capitalisation approach and the discounted cash flow analysis. The slight increase in valuation indicates the stable environment in the investment property market in Guangzhou.

Financial Results

The Properties performed well during the Relevant Period. GZI REIT's consolidated net profit after tax during the Relevant Period amounted to HK$40.543 million, representing an increase by 25 times as compared to the forecasted profit of HK$1.594 million stated in the Profit Forecast for the Relevant Period as disclosed in the Offering Circular. The following is a summary of GZI REIT's financial results during the Relevant Period:

	Actual *HK$'000*	The Profit Forecast *HK$'000* *(Note 1)*	% of change
Gross income	**6,835**	**6,704**	**2.0%**
Leasing agents' fee	(241)	(235)	2.6%
Property related taxes	(643)	(640)	0.5%
Other property expenses (Note 2)	(269)	(269)	—
Total property operating expenses	(1,153)	(1,144)	0.8%
Net property income	**5,682**	**5,560**	**2.2%**
Withholding tax	(649)	(637)	1.9%
Manager's fees	(574)	(538)	6.7%
Trustee's fees	(40)	(37)	8.1%
Other trust expenses (Note 3)	(3,565)	(1,212)	194.1%
Total non-property expenses	(4,828)	(2,424)	99.2%
Net profit before finance costs, interest income and tax	854	3,136	(72.8%)
Interest income (Note 4)	41,209	0	—
Finance costs	(1,520)	(1,542)	(1.4%)
Net profit before tax	40,543	1,594	2,443.5%
Income tax expense	—	—	—
Net profit after tax before transactions with Unitholders	**40,543**	**1,594**	**2,443.5%**
Transactions with Unitholders (Note 5)			
Distributions to Unitholders (Note 6)	(40,543)	—	—
Increase in fair value of Units (Note 7)	(463,348)	—	—
(Note 8)	(463,348)	—	—

Note 1 Based on the Profit Forecast together with the accompanying assumptions as disclosed in the Offering Circular.

Note 2 Other property expenses include valuation fee, insurance premium and depreciation.

Note 3 Other trust expenses include audit fees, legal advisory fees, printing charges, Trustee's inception fee, company secretarial fees and listing fees.

Note 4 This mainly represents non-recurring interest income generated from funds received for units applications during the IPO of GZI REIT.

Note 5 The Trust Deed requires GZI REIT to distribute to Unitholders an amount not less than 90% of Total Distributable Income for each financial period/year subject to adjustments allowed under the Trust Deed. In accordance with Hong Kong Accounting Standard 32 ("HKAS 32"), amounts attributable to Unitholders are recorded as a financial (not legal) liabilities.

Note 6 According to HKAS 32, distributions to Unitholders are regarded as finance costs for accounting purposes.

Note 7 According to HKAS 32, the financial liabilities referred to in Note 5 would be recorded at fair value for accounting purposes.

Note 8 Note 5, 6 and 7 represent only accounting treatments which have no impact on net assets attributable to Unitholders. They have no impact on Total Distributable Income to Unitholders. They are non-cash items representing accounting adjustments made in conformity with HKAS 32.

As indicated in the above schedule, gross income and net property income exceeded the projections in the Profit Forecast by approximately 2%, whilst all fees and expenses except for other trust expenses are in line with the Profit Forecast. The increase in other trust expenses of more than HK$2.353 million is mainly attributable to the increase in professional fees for services rendered by legal advisers, auditors and company secretaries, an one-off inception fee payable to the Trustee and the increase in printing charges as a result of an under-estimation of number of investors.

Whilst finance costs incurred were in line with the Profit Forecast, the non-recurring interest income in the sum of HK$41.128 million as referred to above resulted in a substantial increase in the net profit before tax and before transactions with Unitholders in the sum of HK$40.543 million as compared to HK$1.594 million as recorded in the Profit Forecast.

The transactions with Unitholders disclosed above relate to only non-cash accounting adjustments which have no impact on the net assets attributable to Unitholders and no impact on the Total Distributable Income to Unitholders. They also have no impact on calculations of financial ratios.

Accounting treatment: distributions to Unitholders as finance costs

Pursuant to Rule 7.12 of REIT Code and the terms of the Trust Deed, GZI REIT is required to distribute to Unitholders not less than 90% of its audited annual net income after tax subject to certain adjustments as defined in the Trust Deed. In accordance with the HKAS 32, such distributions to be paid to Unitholders represent finance costs and are therefore presented as expenses in the income statement. Consequently, GZI REIT has, for accounting purpose, recognised distributions as finance costs in their income statement.

Accounting treatment: Units recorded as financial liabilities carried at fair value through profit and loss

On the basis of the accounting standard stated above, GZI REIT has, for accounting purpose, designated its Units as financial (not legal) liabilities carrying at fair value through profit and loss and has recorded such amounts at fair value as at 31 December, 2005. The number of Units in issue and the market price per Unit as at 31 December, 2005 are 1,000 million Units and HK$3.45 respectively resulting in market capitalization of HK$3,450 million. The increase in value in the sum of HK$463.348 million arising from fluctuation of market capitalization during the Relevant Period has therefore been presented as a deduction from profit after tax before transactions with Unitholders.

Accounting treatment: Relevant Period as different from financial period recorded in audited financial statements

The financial review referred to above relates to only the 11 days during the Relevant Period. The audited consolidated financial statements of GZI REIT include the period from 7 December, 2005, the date of establishment of GZI REIT, to 31 December, 2005. According to the reorganisation deed dated 7 December, 2005 entered into between the Manager, the Trustee, GZI REIT (Holding) 2005 Company Limited ("Holdco") and GZI as the guarantor ("the Reorganisation Deed"), any change in the net asset value of the special purpose vehicles holding the Properties ("the SPVs") from 7 December, 2005 to 20 December, 2005, the date preceding the Listing Date should be for the account of the vendor. Accordingly, GZI REIT consolidated its results from 21 December, 2005 to 31 December, 2005 in its audited consolidated financial statements.

PORTFOLIO OVERVIEW

The Properties include Whitehorse Units, Fortune Plaza Units, City Development Units and Victory Plaza Units all of which performed well in the last quarter of 2005, showing improvement in occupancy rates as compared to the historical performance in the first three quarters of the year 2005 as disclosed in the Offering Circular.

The following table shows the rental income generated by each of the Properties during the Relevant Period and the comparison between occupancy rates as at 31 December, 2005 and the historical rates as at 30 September, 2005 as disclosed in the Offering Circular.

	Occupancy rate			Rental income generated during Relevant Period	
	Actual as at 31 December, 2005	Historical as at 30 September, 2005	% of increase	*HK$'000*	% of total rental
Whitehorse Units	100.0%	100.0%	0	3,269	47.8%
Fortune Plaza Units	90.2%	76.9%	13.3%	1,229	18.0%
City Development Units	92.6%	91.0%	1.6%	1,165	17.0%
Victory Plaza Units	100.0%	100.0%	0	1,172	17.2%
Total property portfolio	95.5%	91.7%	3.8%	6,835	100.0%

The occupancy rate of the overall portfolio increased from 91.7% as at 30 September, 2005 to 95.5% as at 31 December, 2005, representing an increase of 3.8%. Whilst Whitehouse Units and Victory Plaza Units maintained a full occupancy rate of 100%, occupancy rates of Fortune Plaza Units increased from 76.9% to 90.2% whilst City Development Units increased from 91.0% to 92.6%.

During the Relevant Period, Whitehouse Units contributed 47.8% of the total rental income of the Properties whilst the remaining three Properties provided an average contribution of 17.4%.

There were no bad debts recorded during the Relevant Period.

FINAL CONSIDERATION FOR ACQUISITION OF 100% OF ISSUED SHARE CAPITAL OF THE SPVs HOLDING THE PROPERTIES FROM SUBSIDIARIES OF GZI

Initial Consideration

Pursuant to the Reorganisation Deed entered into between the Manager, the Trustee, Holdco and GZI as guarantor, the Initial Consideration (as defined therein) payable by REIT Holdco for acquisition of 100% share capital of the SPVs was HK$4,014,180,000, which was calculated based on the sum of the following:

		HK$
a.	combined net asset value of the SPVs Companies as at 30 October, 2005	2,972,767,000
b.	amounts due to the fellow subsidiaries as at 30 October, 2005	994,267,000
c.	amount to be injected by GZI as the guarantor into the SPVs before the closing of the global offering	47,146,000
		4,014,180,000

Adjustments

According to the terms of the Reorganisation Deed, the Final Consideration (as defined therein) to be payable by REIT Holdco for the issued share capital was to be adjusted as follows, after taking into consideration the Final Accounts referred to below:

a. Initial Consideration

b. plus/minus: Initial Adjustment (as defined therein)

c. plus/minus: Combined Net Assets Adjustment (as defined therein)

Final Accounts

According to the terms of the Reorganisation Deed, the Combined Net Assets Adjustment shall be the increase or reduction in the Combined Net Assets in the interval from date of the Reorganisation Deed, 7 December, 2005 until 20 December, 2005 as calculated based on the Initial Accounts and the Final Accounts (as defined therein) after certain defined excluded items. The Initial Accounts were included as an appendix to the Reorganisation Deed.

The Final Accounts representing the audited combined accounts of the SPVs as at 20 December, 2005, which was the date immediately preceding the Listing Date, were completed on 20 March, 2006.

Final Consideration

The calculation of Final Consideration may be summarized as follows:

	HK$	HK$
Initial Consideration		4,014,180,000
Initial Adjustment	60,137,537	
Combined Net Asset Adjustment	23,941,000	
Total Adjustment		84,078,537
Final Consideration		4,098,258,537

The Combined Net Asset Adjustment representing the remaining balance of the Final Consideration has been settled on or about 21 April, 2006.

FINAL CONSIDERATION AS DIFFERENT FROM PURCHASE CONSIDERATION

Please note that Final Consideration referred to above is different from the purchase consideration as disclosed in the audited consolidated accounts of GZI REIT, of which the former relates to consideration for cash settlement purpose between Holdco and the Vendor whilst the later is for determining the goodwill of GZI REIT in the acquisition of the SPVs.

CAPITAL STRUCTURE

The capital management policy of GZI REIT is to achieve optimal debt profile. GZI REIT, through its special purpose vehicles, entered into a facilitiy agreement with a syndicate of banks for an US$165 million three-year term loan facility. Total borrowings (which exclude capitalisation of debt-related expenses) as a percentage of gross assets is 29% whilst total liabilities excluding capitalisation debt-related expenses as a percentage of gross assets is 33%. The bank borrowings are secured and the security package includes, among others, a registered mortgage over each of the Properties, assignment of rental income and all other proceeds arising from each of the Properties and of all tenancy agreements relating to each of the Properties and a legal mortgage over the shares of the SPVs including Partat Investment Limited ("Partat"), Moon King Limited ("Moon King"), Full Estates Investment Limited ("Full Estates") and Keen Ocean Limited ("Keen Ocean").

REVIEW OF FINANCIAL RESULTS

The final results of GZI REIT for the Relevant Period have been reviewed by the Disclosures Committee and Audit Committee of the Manager.

NEW UNITS ISSUED

There were no new Units issued during the Relevant Period.

REPURCHASE, SALE OR REDEMPTION OF UNITS

Pursuant to the Trust Deed, the Manager shall not repurchase any Units on behalf of GZI REIT until permitted to do so by the relevant codes and guidelines issued by SFC from time to time.

During the Relevant Period, there was no repurchase, sale or redemption of Units by GZI REIT or subsidiaries of GZI REIT.

SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

GZI REIT did not enter into any real estate sales and purchases during the Relevant Period.

TOP 5 REAL ESTATE AGENTS AND CONTRACTORS ENGAGED BY GZI REIT

During the Relevant Period, GZI REIT has engaged Yicheng Property Management Co., Ltd. ("Yicheng") and White Horse Property Management Company Ltd. ("White Horse Property Management Company") (collectively "the Leasing Agents") to provide dedicated leasing, marketing, tenancy management and property management services to the Properties. Other than the Leasing Agents referred to above, GZI REIT did not engage any other real estate agents and contractors during the Relevant Period.

INTEREST COVERAGE

Interest coverage was 27 times for the Relevant Period measured based on the operating profit after adjustment for non-cash items.

EMPLOYEES

GZI REIT is managed by the Manager. GZI REIT does not employ any staff.

THE PROPERTIES IN GUANGZHOU: A GROWING CITY

GZI REIT is the first REIT in the world which invests in Guangzhou, Guangdong Province, the PRC. Guangzhou is located in the centre of the Pearl River Delta Region and is the capital city as well as the political, economic, scientific and cultural centre of Guangdong Province. It is also the centre city in the southern region of the PRC. The city's population totalled around 7.4 million in 2004. It has an area of 7,434 sq. km and is one of the most popular destinations within the PRC in attracting foreign direct investment.

GZI REIT includes 4 properties which are located in Guangzhou and which comprises a total GFA of 160,651 sq. m.

The following provides certain basic information on Guangzhou.

Information on Guangzhou city:

- Guangzhou is the provincial capital and the largest city-level economy of Guangdong province.
- Guangzhou has reached a GDP of RMB500 billion in 2005, an increase of 13% as compared to last year. It consolidates its economy capacities towards attaining new achievements.
- The Guangzhou Municipal Government projected a double-digit growth in the coming three years.
- The above information is sourced from the Guangzhou Statistical Bureau and China Statistical Bureau.

FORTUNE PLAZA, CITY DEVELOPMENT PLAZA AND VICTORY PLAZA:

Located At Central Business District

Prime location

- Fortune Plaza, City Development Plaza and Victory Plaza are all located in Tianhe central business district ("CBD"), which runs to the east and west of the axis of new town city of Guangzhou.

- The region consists of the newly emerging commercial and trade centres in Guangzhou. The largest department store, IT digital products and cultural & sports products shopping arcades are all situated in the large-scale Tianhe CBD.

Main transportation centre

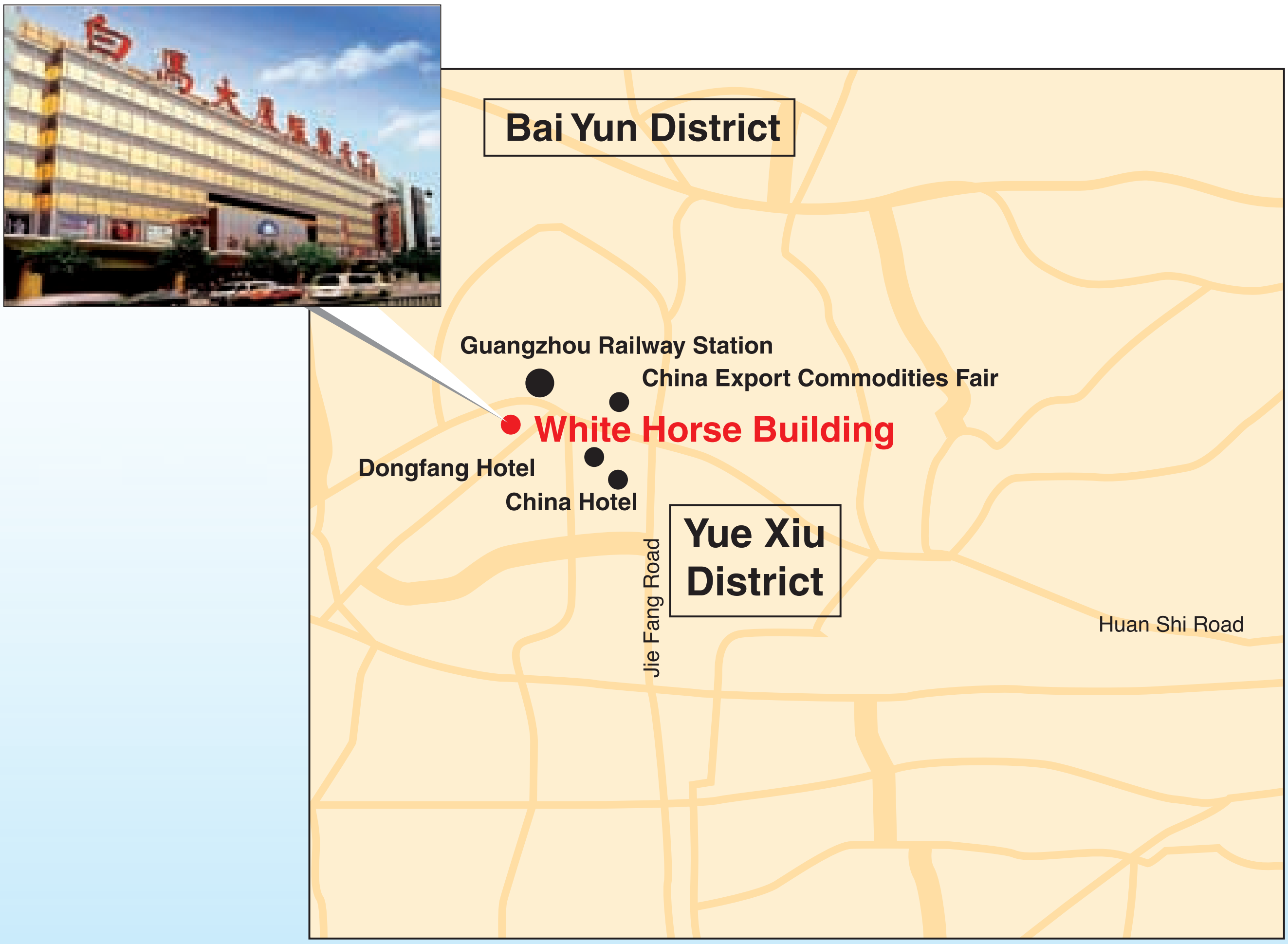
- The region offers convenient accessibility with a transportation network of No.1 metro line and No.3 metro line. The three major projects namely, Fortune Plaza, City Development Plaza and Victory Plaza, are metro superstructures or enjoy proximity to the metro station.

Focus

- Fortune Plaza and City Development Plaza are major Grade A office building in the region, whereas Victory Plaza is a newly completed high-end shopping arcade.

WHITE HORSE BUILDING:

Located at Traditional Trade and Business Convention and Exhibition Centre



Prime location

- White Horse Building is located in Yue Xiu District. It is a traditional trade and exhibition region in Guangzhou close to Guangzhou Trade Fair Main Centre.

Main transportation Centre

- White Horse Building is situated at a unique geographical location, adjacent to Guangzhou Railway Station, Guangdong Province and Guangzhou City long distance transportation terminal, No.2 metro line and bus terminal, enjoying convenient transportation.

Focus

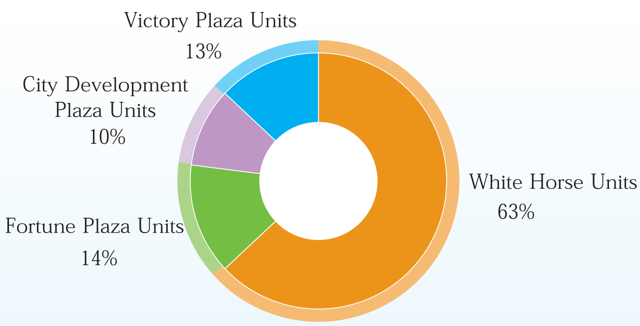
- As one of the largest fashion wholesale and retail centres in the PRC, White Horse Building maintains its dominant position in the region with businesses over the nation as well as other countries and areas including Russia and the Middle East.

Property Portfolio

GZI REIT PROPERTIES

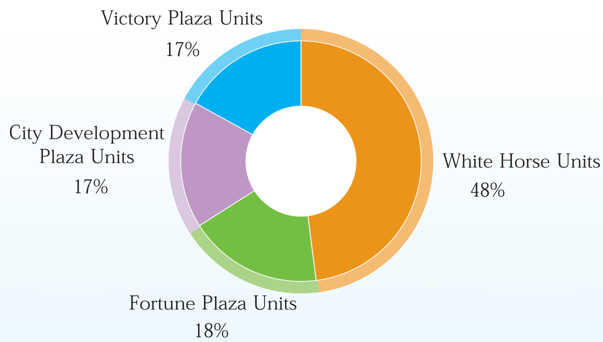
ASSET Value Breakdown by portfolio

(as at 31 December, 2005)



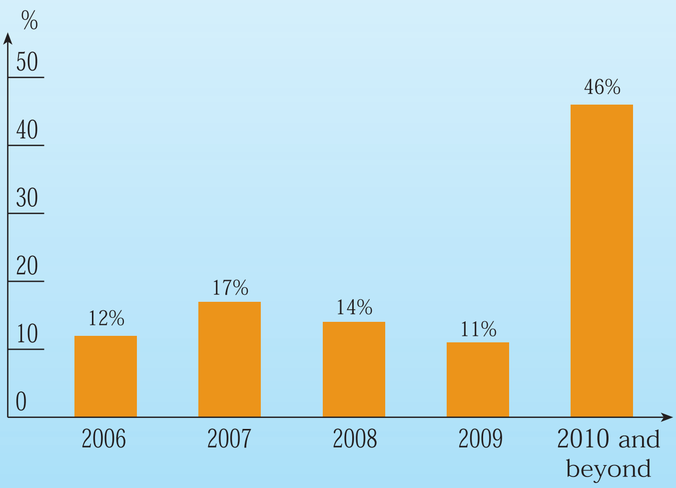
Rental Income Breakdown by Portfolio

(Relevant Period from 21 December, 2005 to 31 December, 2005)



Lease Expiries Measured by Rentable Area

(as at 31 December, 2005)



WHITE HORSE UNITS *(Note 1)*

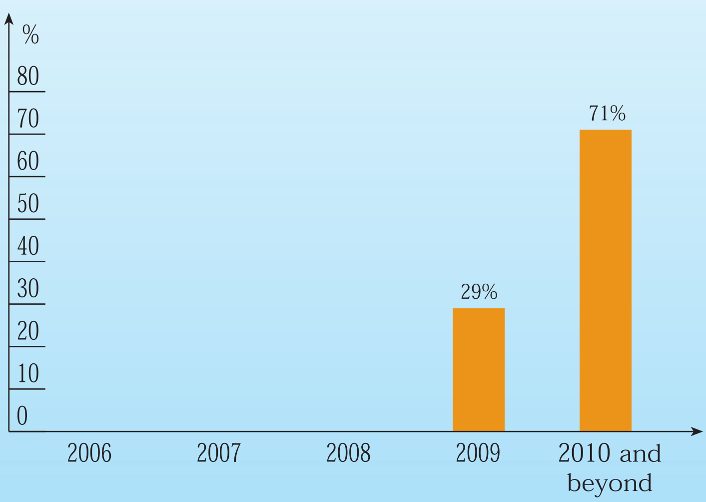
Renowned fashion wholesale and retail center

Key information (as at 31 December, 2005)	
Location	Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, the PRC
Initial completion date	1990
GZI REIT ownership	81.4%
Gross Rentable Area	49,007.2 sq.m.
Rental income *(Note 2)*	HK$3.269 million
Valuation *(Note 3)*	HK$2,574.0 million
Occupancy Rate	100.0%

Note 1: White Horse Units refer to units of White Horse Building held as assets of GZI REIT.
Note 2: Rental income generated during the Relevant Period.
Note 3: Valuation as at 31 December, 2005.

Lease Expiries Measured by Rental Area

as at 31 December, 2005



Property Portfolio

FORTUNE PLAZA UNITS *(Note 1)*

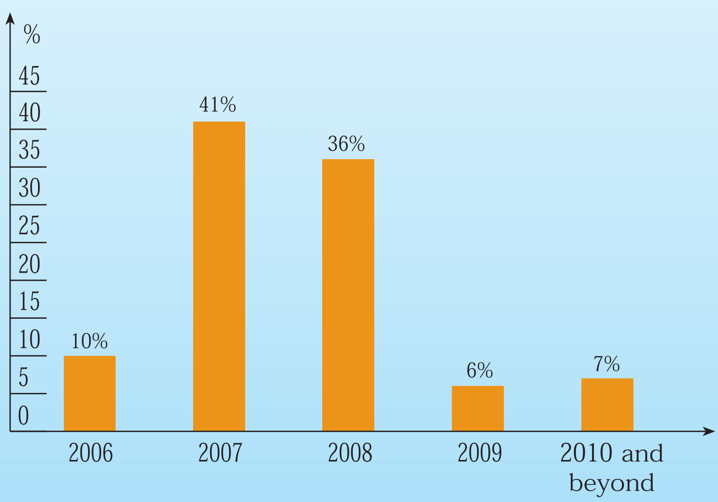
Grade A commercial building with offices and a retail podium

Key information (as at 31 December, 2005)	
Location	Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, the PRC
Initial completion date	2003
GZI REIT ownership	50.2%
Gross rentable area	40,356.2 sq.m.
Rental income *(Note 2)*	HK$1.229 million
Valuation *(Note 3)*	HK$554.8 million
Occupancy rate	90.2%

Note 1: Fortune Plaza Units refer to units of Fortune Plaza held as assets of GZI REIT.
Note 2: Rental income generated during the Relevant Period.
Note 3: Valuation as at 31 December, 2005.

Lease Expiries Measured by Rental Area

as at 31 December, 2005



CITY DEVELOPMENT PLAZA UNITS *(Note 1)*

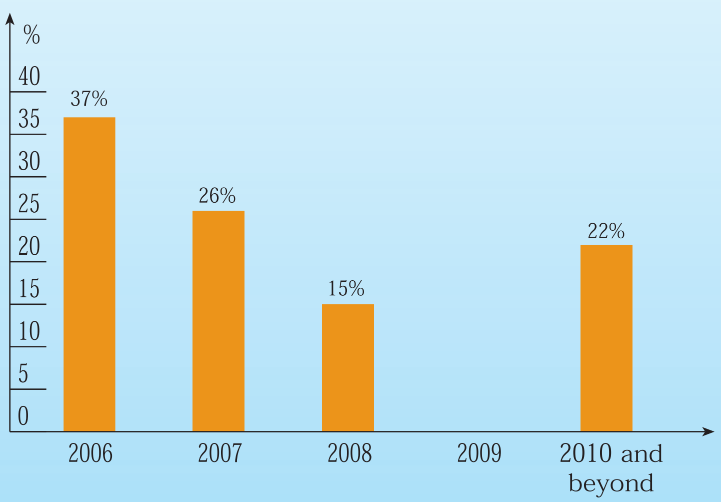
Grade A commercial building with offices and a retail podium

Key information (as at 31 December, 2005)	
Location	Nos. 185, 187 and 189, Ti Yu Xi Road, Tian He District, Guangzhou, the PRC
Initial completion date	1997
GZI REIT ownership	57.3%
Gross rentable area	42,397.4 sq.m.
Rental income *(Note 2)*	HK$1.165 million
Valuation *(Note 3)*	HK$392.0 million
Occupancy rate	92.6%

Note 1: City Development Plaza Units refer to units of City Development Plaza held as assets of GZI REIT.
Note 2: Rental income generated during the Relevant Period.
Note 3: Valuation as at 31 December, 2005.

Lease Expiries Measured by Rentable Area

as at 31 December, 2005



VICTORY PLAZA UNITS *(Note 1)*

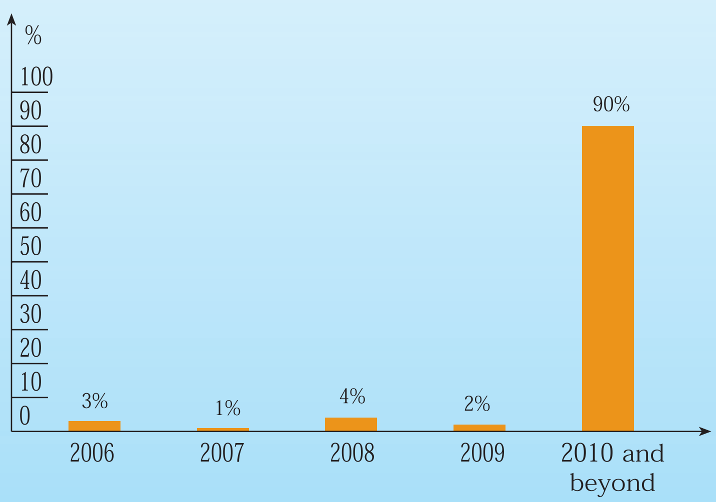
Retail Shopping Arcade

Key information (as at 31 December, 2005)	
Location	No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, the PRC
Initial completion date	2003
GZI REIT ownership *(Note 2)*	52.7%
Gross rentable area	27,262.3 sq.m.
Rental income *(Note 3)*	HK$1.172 million
Valuation *(Note 4)*	HK$533.0 million
Occupancy rate	100.0%

Note 1: Victory Plaza Units refer to units of Victory Plaza held as assets of GZI REIT.
Note 2: Victory Plaza Units account for 52.7% of the combined gross floor area of the podium and the four levels of underground car parks.
Note 3: Rental income generated during the Relevant Period.
Note 4: Valuation as at 31 December, 2005

Lease Expiries Measured by Rentable Area

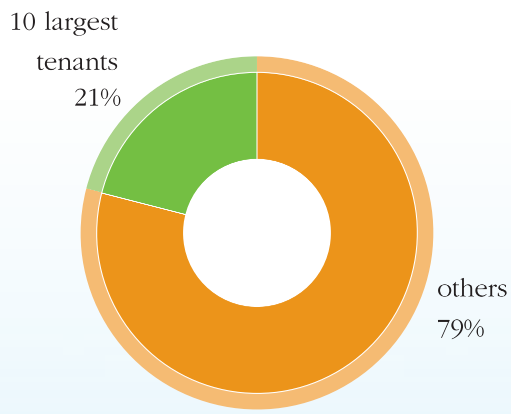
as at 31 December, 2005



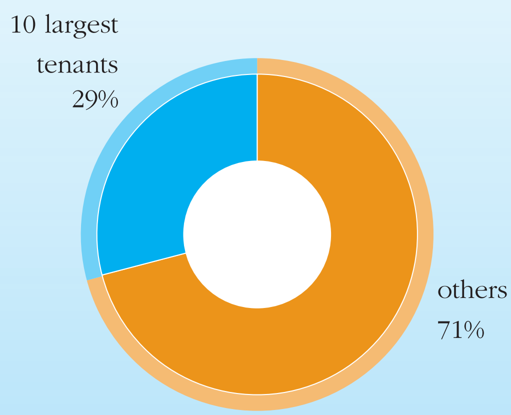
TOP 10 LARGEST TENANTS

GZI REIT PROPERTIES

Contribution of 10 largest tenants
(based on monthly base rent for December, 2005)



Area occupied by 10 largest tenants as a percentage to gross rentable area
(as at 31 December, 2005)

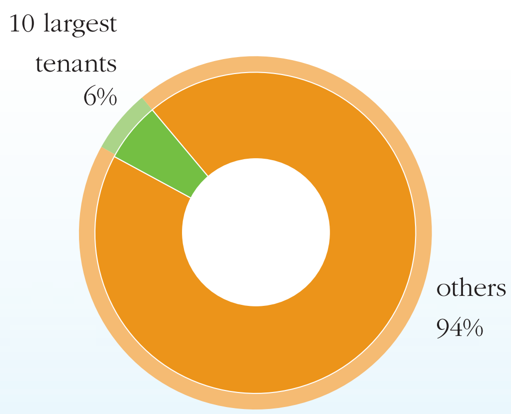


TOP 10 LARGEST TENANTS

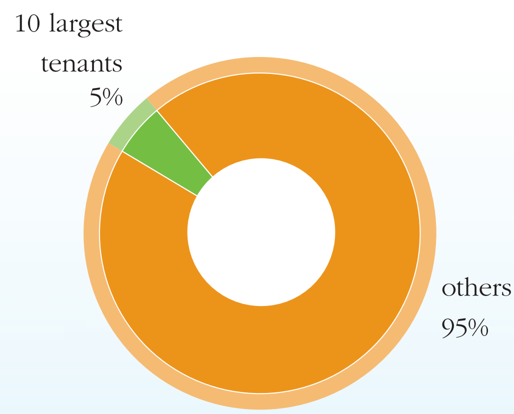
White Horse Units

Contribution of 10 largest tenants

(based on monthly base rent for December, 2005)



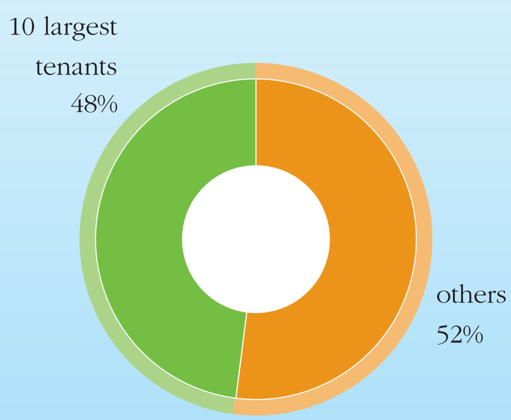
Area occupied by 10 largest tenants as a percentage to gross rentable area
(as at 31 December, 2005)



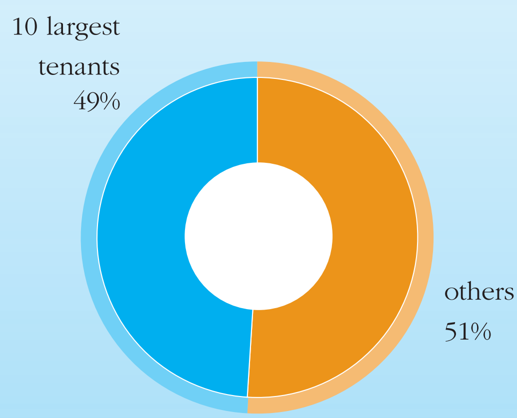
Fortune Plaza Units

Contribution of 10 largest tenants

(based on monthly base rent for December, 2005)



Area occupied by 10 largest tenants as a percentage to gross rentable area
(as at 31 December, 2005)

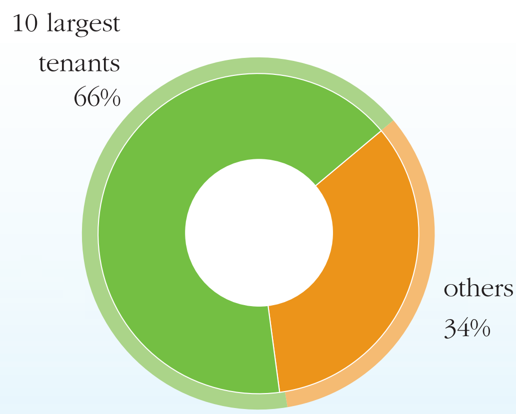


TOP 10 LARGEST TENANTS

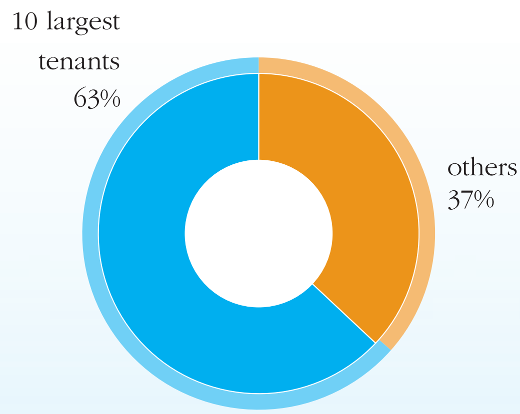
City Development Plaza

Contribution of 10 largest tenants

(based on monthly base rent for December, 2005)



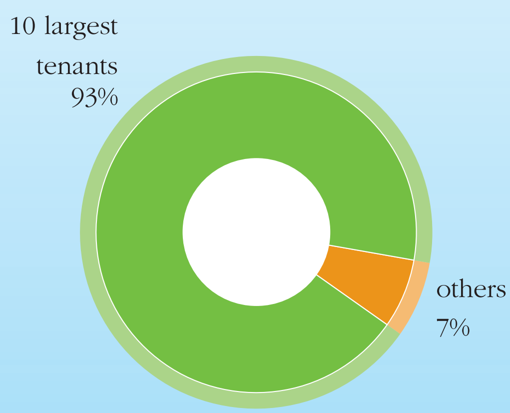
Area occupied by 10 largest tenants as a percentage to gross rentable area
(as at 31 December, 2005)



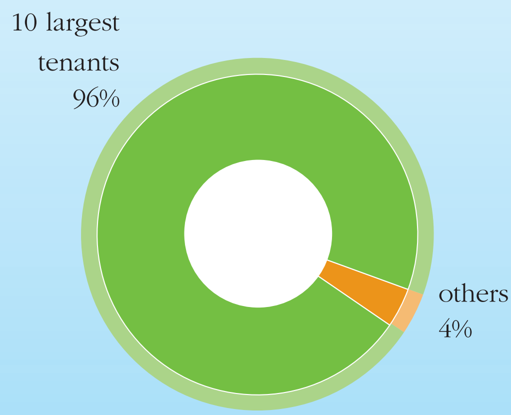
Victoria Plaza Units

Contribution of 10 largest tenants

(based on monthly base rent for December, 2005)



Area occupied by 10 largest tenants as a percentage to gross rentable area
(as at 31 December, 2005)



GZI REIT MAJOR TENANTS

Tenant	Business sector	Expiry date	Gross Rentable Area (sq.m.)	Percentage of total Gross Rentable Area (%)	Percentage of total monthly base rent (%)
White Horse Units					
Chen Shuang Xia	Garment Wholesale/retail	31 December, 2005 (Note 1)	334.52	0.68%	0.72%
Wu Huaying	Garment Wholesale/retail	31 December, 2005 (Note 1)	285.04	0.58%	0.61%
Yao Zahn Hao	Garment Wholesale/retail	31 December, 2005 (Note 1)	312.40	0.64%	0.61%
Bank of Communications Guangzhou Branch	Banking	31 December, 2005 (Note 1)	265.16	0.54%	0.60%
司詠梅	Garment Wholesale/retail	31 December, 2005 (Note 1)	192.07	0.39%	0.59%
謝麗娜	Garment Wholesale/retail	31 December, 2005 (Note 1)	509.96	1.04%	0.56%
徐新	Garment Wholesale/retail	31 December, 2005 (Note 1)	139.85	0.29%	0.54%
趙柯春	Garment Wholesale/retail	31 December, 2005 (Note 1)	138.40	0.28%	0.53%
Xie Qiu Sheng	Garment Wholesale/retail	31 December, 2005 (Note 1)	210.79	0.43%	0.52%
鄭珠明	Garment Wholesale/retail	31 December, 2005 (Note 1)	217.47	0.44%	0.51%
Fortune Plaza Units					
HSBC Electronic Data Processing (Guangdong) Limited	Banking	31 August, 2008	8,550.20	21.19%	19.03%
Alibaba (China) Technology Co., Ltd.	E-commerce	31 July, 2007	2,092.41	5.18%	4.92%
Nei Meng Gu Yi Lin Mu Ye Co., Ltd.	Services	20 July, 2007	2,000.00	4.96%	4.02%
China National Petroleum Co., Ltd.	Petroleum	11 April, 2007	1,188.41	2.94%	3.21%
Jia De Shi (China) Investment Co., Ltd.	Petroleum	30 September, 2008	997.66	2.47%	3.16%
Guangzhou Hai Yi Property Development Co., Ltd.	Real Estate	7 September, 2007	999.01	2.48%	2.81%
Astra Zeneca Pharmaceutical Co., Ltd.	Pharmaceutical	31 March, 2007	997.66	2.47%	2.81%
Guo Lu Yun Tong Hua Nan Airline Services Co., Ltd.	Logistics	9 August, 2008	999.01	2.48%	2.76%
Glory Business Services Co., Ltd. Guangzhou Branch	Services	9 May, 2009	997.66	2.47%	2.62%
德訊（中國）貨運代理有限公司廣州分公司	Logistics	30 September, 2007	997.66	2.47%	2.54%

Note:
(1) Leases extend to 31 December, 2009 or 31 December, 2010.

GZI REIT MAJOR TENANTS

Tenant	Business sector	Expiry date	Gross Rentable Area (sq.m.)	Percentage of total Gross Rentable Area (%)	Percentage of total monthly base rent (%)
City Development Plaza Units					
Guangdong Mobile Communications Co., Ltd.	Communications	30 April, 2008	3,688.68	8.70%	12.06%
Efund Management Co., Ltd.	Finance	31 August, 2006 16 October, 2006	1,844.34 1,844.34	4.35% 4.35%	5.35% 5.63%
Guangzhou Wisdom Valley Development Company Limited	Services	30 June, 2010	7,830.07	18.47%	9.31%
Cosco Guangzhou International Freight Co., Ltd.	Transportation	31 August, 2006	2,997.05	7.07%	8.03%
Taikang Life Insurance Co., Ltd. Guangzhou Branch	Insurance	31 December, 2007	2,431.88	5.74%	6.00%
Yangcheng Sub-branch of Guangzhou Branch, Shenzhen Development Bank	Banking	31 October, 2007	694.16	1.64%	5.08%
Axa-Minmetals Assurance Co., Ltd. Guangzhou Branch	Finance	19 November, 2006	1,844.34	4.35%	4.55%
Guangzhou City Construction & Development Xingye Property Agent Ltd.	Property agency	31 December, 2005	1,528.76	3.61%	4.53%
Guangzhou Ying Hai Wen Hua Broadcasting Co., Ltd.	Media	31 December, 2006 30 September, 2007	334.64 818.07	0.79% 1.93%	0.90% 2.19%
Guangzhou Investment Company Limited	Finance	31 December, 2007	1,060.49	2.50%	2.84%
Victory Plaza Units					
Guangzhou Xindaxin Co., Ltd.	Department store	31 March, 2010	12,529.72	45.97%	43.00%
Guangzhou GOME Electrical Appliances Co., Ltd.	Electrical appliances	31 May, 2011	1,918.00	7.00%	12.20%
China Merchants Bank Guangzhou Branch	Banking	17 October, 2008	775.60	2.80%	6.30%
Yum! Restaurants (Guangdong) Co., Ltd.	Food and beverage	9 December, 2013	840.00	3.10%	5.80%
Guangzhou Qiao Mei Fa Zhan Company Limited	Food and beverage	9 December, 2013	3,017.80	11.10%	5.40%
Chen Hui Yi	Food and beverage	30 April, 2014	2,773.20	10.20%	5.20%
Zhang Li Fen	Retail	17 October, 2006	378.20	1.40%	4.80%
Zhou Cai Xia	Retail/Food and beverage	15 October, 2008 30 April, 2014	77.00 1,996.70	0.30% 7.30%	0.60% 3.70%
Shanghai Häagen-Dazs Co., Ltd.	Food and beverage	31 August, 2009	318.20	1.20%	3.20%
Guangzhou Lao Xiang Diet Co., Ltd.	Food and beverage	17 May, 2012	1,585.40	5.80%	2.80%

Report of the Trustee

TRUSTEE REPORT TO UNITHOLDERS

We hereby confirm that, in our opinion, the Manager of GZI Real Estate Investment Trust has, in all material respects, managed the GZI Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 7 December, 2005 for the financial period ended 31 December, 2005.

HSBC Institutional Trust Services (Asia) Limited,
as the trustee of GZI Real Estate Investment Trust

Hong Kong, 18 April, 2006

DIRECTORS

The Directors of the Manager are:

Name	Age	Position
Mr LIANG Ningguang (梁凝光)	52	Chairman and Executive Director
Mr LIU Yongjie (劉永杰)	48	Chief Executive Officer and Executive Director
Mr LIANG Youpan (梁由潘)	50	Non-Executive Director
Mr CHAN Chi On, Derek (陳志安)	42	Independent Non-Executive Director
Mr LEE Kwan Hung, Eddie (李均雄)	40	Independent Non-Executive Director
Mr CHAN Chi Fai, Brian (陳志輝)	51	Independent Non-Executive Director

Information on the business and working experience of the Directors is set out below:

Chairman

Mr LIANG Ningguang

Mr Liang is the Chairman and an Executive Director of the Manager as well as one of the Manager's Responsible Officers. Mr Liang is also currently the Vice Chairman of Yue Xiu, an Executive Director of GZI Transport Limited (a Hong Kong listed company) and a director of Yue Xiu Securities Co. Ltd. Mr Liang was formerly an Executive Director and Deputy General Manager of GZI.

Prior to joining Yue Xiu in 1989, Mr Liang was a Deputy Commissioner of the Guangzhou Municipal Taxation Bureau.

Mr Liang graduated from the Television University (Guangzhou) in the PRC with a major in finance and holds a master's degree in business administration from the Murdoch University of Australia. He is a Senior Accountant and a member of the Chinese Institute of Certified Public Accountants and is a Responsible Officer licensed under the SFO to carry on regulated activities types 1, 4, 6 and 9.

Executive Director

Mr LIU Yongjie

Mr Liu is an Executive Director and Chief Executive Officer of the Manager as well as one of the Manager's Responsible Officers. He is concurrently Deputy General Manager of Yue Xiu but has devoted, and expected to continue to devote, 100.0% of his time in the management of GZI REIT.

Before joining Yue Xiu, Mr Liu was a Director and Deputy General Manager of Guangzhou City Construction & Development Co. Ltd. ("GCCD"), and was responsible for strategic planning in property development, property management and promotional campaigns, asset acquisition and asset enhancement. Mr Liu has more than 11 years of experience in property investment and management. Prior to joining the property department of GCCD, Mr Liu was an assistant to the director of, and a research fellow in economic studies in, the Economic Research Centre in Guangzhou.

Mr Liu graduated from the University of Hubei (formerly known as Wuhan Teachers' College) in the PRC with a major in science; and obtained an Executive Master degree of Business Administration from Honolulu University.

Directors' and Senior Executives' Profiles

Non-executive Director

Mr LIANG Youpan

Mr Liang is a non-executive Director of the Manager. He is currently also the Deputy General Manager of GZI.

Prior to joining GZI in 1998, Mr Liang was the Workshop Director of Guangzhou Wen Chong Shipyard Company Limited, which is a subsidiary of China State Shipbuilding Company. Between 1991 and 1998, Mr Liang was a unit head in the administrative supervisory division of the Guangzhou Municipality. Mr Liang has a wide range of experience in PRC corporate governance practices, particularly in the area of internal controls.

Mr Liang graduated in 1986 from Guangzhou Economics Management Cadre's Institute in the PRC with a diploma in corporate governance.

Independent Non-executive Directors

Mr CHAN Chi On, Derek

Mr Chan is an independent non-executive Director of the Manager and is currently also the Managing Director of Tai Fook Capital Limited.

Mr Chan is an executive director of Tai Fook Securities Group Limited, a company listed on the Hong Kong Stock Exchange, and is in charge of its corporate finance division. He graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences (major in Economics) in 1985 and from the Hong Kong University of Science & Technology with a master's degree in business administration in 1994. Between 1989 and 1996, he had worked for the Hong Kong Stock Exchange. He is an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr Chan has over 15 years of experience in the financial services industry.

Mr LEE Kwan Hung, Eddie

Mr Eddie Lee is a Partner of Woo, Kwan, Lee & Lo and the Chief Representative of the law firm's Beijing office.

Mr Lee received his LL.B (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr Lee joined Woo, Kwan, Lee & Lo in 1989 and handled a number of listing projects in Hong Kong. In 1992, Mr Lee joined the Hong Kong Stock Exchange as a Manager in the Listing Division and was promoted to be a Senior Manager in 1993.

Mr CHAN Chi Fai, Brian

Mr Chan is an independent non-executive Director of the Manager and is currently also the Chief Financial Officer of the Parkview Group, which comprises two listed companies and a group of other companies with total assets exceeding HK$10.0 billion.

Mr Chan has been heavily involved in the overall development of the Hong Kong Parkview Group since he joined the group in 1990. With projects and investment properties in Hong Kong, the PRC, Singapore and United Kingdom, Hong Kong Parkview Group is principally engaged in property development and hospitality.

Prior to joining the Parkview Group, Mr Chan worked in the banking sector from 1978 to 1989, the first seven years of which was with a reputable international bank. The last position Mr Chan held before leaving his banking career was as Group Financial Controller of IBI Asia (Holdings) Limited. During his 11 years in banking, Mr Chan was involved in international banking operations, mergers and acquisitions as well as financial and risk management.

Mr Chan has a higher diploma in business studies from the Hong Kong Polytechnic as well as professional accounting qualifications in Hong Kong.

Compensation of Directors of the Manager

All fees and compensation of the Directors and senior executives of the Manager were borne by the Manager and not by GZI REIT or any of its controlled entities.

Independence of Directors

The Manager has received written annual confirmation of independence from the three independent non-executive Directors of the Manager confirming his independence based on the criteria set out in the compliance manual adopted by the Manager ("Compliance Manual") and the Manager considered all independent non-executive directors to be independent.

SENIOR EXECUTIVES OF THE MANAGER

Information on the business and working experience of the senior executives of the Manager is set out below:

Mr LIU Yongjie

Mr Liu is the Chief Executive Officer and one of the Responsible Officers of the Manager. Information on his business and working experience have been set out in the subsection headed "Directors" above.

Mr LAU Jin Tin, Don

Mr Lau is a Deputy Chief Executive Officer and one of the Responsible Officers of the Manager. He assists the Chief Executive Officer of the Manager to ensure that GZI REIT is operated in accordance with the stated investment strategy of GZI REIT. Mr Lau also serves as the Compliance Manager of the Manager and is responsible for ensuring that the Compliance Manual, the REIT Code, the Trust Deed and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are adhered to. Additionally, he is responsible for managing GZI REIT's borrowings, cash flow, assets and liabilities and other financial matters. He will be invited to participate in the Manager's Finance and Investment Committee to review and make recommendations on any financial matters as well as acquisitions and disposals of assets.

Prior to joining Yue Xiu in 1995, he was an executive officer of NatWest Markets for over 10 years and participated in various capital market and corporate finance transactions, including origination, advice and execution of a wide range of PRC project financing activities.

Mr Lau is concurrently the Deputy Group Financial Controller of GZI. During the past 10 years with Yue Xiu and GZI, his main responsibilities included the active structuring, sourcing and management of equity and debt capital to finance the properties and other projects held by the two groups of companies. Mr Lau's experience also included managing the risk exposures of the Yue Xiu group and the GZI Group as well as hedging their asset and liability portfolios.

Mr Lau obtained a master's degree in applied finance from the Macquarie University in Australia and is an Associate of the Chartered Institute of Bankers.

Directors' and Senior Executives' Profiles

Mr CAI Xiaoping

Mr Cai is a Deputy Chief Executive Officer of the Manager, and also heads its investment management team.

Mr Cai joined GCCD in 1993 and, prior to joining the Manager, was the Deputy General Accountant of GCCD group and a director of GCCD. He had previously assumed a number of roles in the GCCD group, such as General Manager of the Finance and Accounting Department.

Prior to joining GCCD, Mr Cai worked in the 4th Harbour Engineering Bureau of the Ministry of Communications from 1969 to 1993 where he had been a section member, Head of Finance Section and Manager of Finance Department. During his employment with the bureau, he had been in charge of the financial and accounting management of numerous major projects undertaken by the bureau, which were some of the key national projects of the Ministry of Communications.

Mr Cai has over 20 years of experience in finance management as well as investment, development and operation of real estate and property management, specialising in restructuring, mergers and acquisitions, planning and use of capital, analysis and decision making in relation to major corporate business, finance organisation and implementation, credit plans and cash application, and exploring new financial resources and preservation and appreciation of guaranteed assets.

Mr Cai is a Senior Accountant and the Vice Chairman of the Real Estate Development Accounting Committee of the Construction Accounting Society of China and a member of the Guangzhou Senior Accountant Review Committee.

Mr CHENG Jiuzhou

Mr Cheng heads the asset management team of the Manager. He joined the GCCD group in 1996 and worked in Guangzhou Grandcity Development Ltd. and Guangzhou Investment Property Holdings Limited.

In the past ten years, Mr Cheng has conducted extensive market research in the property industry, covering property appraisal, investment strategy planning, feasibility study, the marketing of the property industry, lease management and cost analysis. He has extensive management experience in the property market. He has also published a book about the property market and delivered 20 papers in various magazines. Mr Cheng has conducted feasibility studies and investment strategy planning for more than 20 real estate development projects such as Tianhe Grandcity Business Plaza, Huiya Garden, Galaxy City, Fortune Plaza and Victory Plaza.

Mr Cheng obtained a Bachelor of Arts in Law from Hubei University in the PRC in 1993 and a Master of Arts in Economics from Jinan University in the PRC in 1996. He is currently a member of the China Institute of Registered Appraisers.

Mr IP Wing Wah

Mr Ip heads the Manager's development and project management team and has over 20 years of experience in the building industry. He has worked for contractors where his main duty was to manage the staff and to ensure timely completion of building projects for clients such as government departments and private developers.

Mr Ip has also worked for a few property developers where his main duty was to work closely with the design teams, architects, engineers, quantity surveyors and solicitors to develop and build various properties. Projects he worked on were mainly residential, commercial and industrial developments.

Mr Ip obtained an Endorsement Certificate in Building Studies from Hong Kong Polytechnic in 1986 and is a member of Chartered Institute of Building as well as a member of the Hong Kong Institute of Construction Managers.

Ms KO Yung Lai, Jackie

Ms Ko is the Chief Financial Officer of the Manager and is concurrently the Director and Financial Controller of Yue Xiu Securities Co. Ltd. She has spent, and is expected to continue to spend, the majority of her time in the management of GZI REIT.

Formerly she was the Deputy General Manager of the Finance and Accounts Department of GZI.

During her nine years with the Yue Xiu group, she has been mainly responsible for overseeing the group's financial management functions and enhancement of management accounting systems that support strategic and operational requirements of the group.

Ms Ko is licensed by the SFC as a Responsible Officer of Yue Xiu Securities Co. Ltd. for regulated activities of both dealing and advising on securities under the SFO. She is registered with the Hong Kong Stock Exchange as a dealing director and is also a member of the Hong Kong Securities Institute.

Prior to joining the Yue Xiu group in 1997, Ms Ko worked for Arthur Andersen & Co., Certified Public Accountants for several years in their Hong Kong and Sydney offices.

She is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants (United Kingdom) and has obtained a Professional Diploma in Management Accountancy from the Hong Kong Polytechnic University.

Mr SHIU Siu Tao, Alex

Mr Shiu, who heads the Manager's investor relations team, received his Bachelor degree in Business Administration from the Chinese University of Hong Kong (International Business Management) and further obtained a post graduate degree from Huate Etudes Commerciales of Paris (Finance) pursuant to a French Government scholarship. He has worked in the field of corporate finance for over 10 years, and is currently a Director and Responsible Officer for Corporate Finance of Yue Xiu Securities Co. Ltd. His experience covers a wide range of industry including property development in the PRC, and has previously worked at multinational corporations. Mr Shiu has been in charge of investor relations services at GZI since 2004.

Mr YU Tat Fung

Mr Yu is the company secretary of the Manager. He is also the legal counsel of GZI and, from October 2004, the company secretary of both GZI and GZI Transport Limited. Mr Yu obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1981. He attained the Solicitors Final Examination in England in 1983. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1986. He was also admitted to the Bar of the Province of British Columbia in Canada in 1995. Prior to joining GZI in 1997, he was engaged in private practice with an emphasis on corporate and commercial law.

The Leasing Agents

The Leasing Agents

Yicheng Property Management Co., Ltd. ("Yicheng") was incorporated in the PRC in 1997 and is 85.7% owned by GZI. It was ISO9001:2000 certified in 2003.

White Horse Property Management Company Ltd. ("White Horse Property Management Company") was incorporated in the PRC in 1998 to provide dedicated leasing, marketing, tenancy management and property management services to White Horse Building and has been exclusively managing the property since 1998. It was ISO9001:2000 certified in 2001.

Conflicts of Interest

GZI, its subsidiaries and associates are engaged in, amongst other things, investment in and development and management of commercial properties. Possible conflicts of interest may arise where GZI REIT competes directly with GZI and/or its subsidiaries or associates for property acquisitions and tenants. In order to address such potential conflict of interest, the following arrangements have been made.

Segregation of operational leasing and marketing functions

The GZI group has effected an internal restructuring which resulted in White Horse Property Management Company and Yicheng (together "Leasing Agents") only being solely responsible for providing leasing and marketing services to GZI REIT's properties and another company within the GZI group ("GZI Property Manager") being solely responsible for providing such services to properties not belonging to GZI REIT.

"Chinese Walls"

"Chinese Wall" procedures have been put in place to ensure that there is segregation of information between the Leasing Agents and the GZI Property Manager. These include having separate operating premises and IT systems, and separate reporting lines, for each of the Leasing Agents and the GZI Property Manager. Both Leasing Agents have on-site premises for its use in connection with its property management functions. The personnel and IT systems of the Leasing Agents and the GZI Property Manager has been physically segregated.

Contractual protection

Contractual provisions have been included in each of the tenancy services agreements entered into between the Manager and Partat, Moon King, Full Estates or, as the case may be, Keen Ocean, and the relevant Leasing Agent to provide that:

(i) the Leasing Agents will at all times act in the best interests of GZI REIT and exercise a reasonable standard of care, skill, prudence and diligence under the circumstances then prevailing that a reputable leasing agent would use in providing similar services for comparable commercial properties in Guangzhou;

(ii) the Leasing Agents will adhere to the organisational charts and reporting lines agreed with the Manager and will act in accordance with the directions of the Manager;

(iii) the Leasing Agents will implement the annual business plan and budget approved by the Manager every year and use its best endeavours to achieve the revenue targets in such approved annual business plan and budget; and

(iv) if leasing or marketing opportunities in relation to any of the Properties become available to the Leasing Agents which the Leasing Agents, acting reasonably and in good faith, consider are or are likely to be in competition with the GZI Property Manager, the Leasing Agents will either:

- refer all such business proposals to the Manager for vetting and confirmation before the relevant Leasing Agent proceeds with such proposals or opportunities; or

- sub-contract to a third party leasing agent independent of the GZI Group, to devise and implement the relevant business proposal.

GZI, being the parent company of the Leasing Agents, has provided an undertaking to GZI REIT that it will procure that the Leasing Agents will comply with the relevant provisions set out in the tenancy services agreements in this regard.

Corporate Governance

With the objective of establishing and maintaining high standards of corporate governance, certain policies and procedures have been put in place to promote the operation of GZI REIT in a transparent manner and with built-in checks and balances. Set out below is a summary of the key components of the corporate governance policies that have been adopted and are followed by the Manager and GZI REIT.

Authorisation Structure

GZI REIT is a Unit trust authorised by the SFC under section 104 of the SFO and regulated by the provisions of the REIT Code. The Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. The Manager has three persons who are approved as Responsible Officers pursuant to the requirements of section 125 of the SFO and Rule 5.4 of the REIT Code, and Mr Liang Ningguang and Mr Liu Yongjie, the executive Directors of the Manager are also Responsible Officers of the Manager pursuant to the requirements of section 125 of the SFO.

The Trustee is registered as a trust company under section 77 of the Trustee Ordinance (Chapter 29) and is qualified to act as a trustee for authorised collective investment schemes under the SFO and the REIT Code.

Roles of the Trustee and Manager

The Trustee is responsible under the Trust Deed for, amongst other things, the safe custody of the assets of GZI REIT held by it on behalf of Unitholders. The Manager's role under the Trust Deed is to manage GZI REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of GZI REIT's assets are professionally managed in the sole interests of the Unitholders.

Functions of the Board

The board of Directors of the Manager ("Board") currently comprises six members, three of whom are INEDs.

The Board principally oversees the day-to-day management of the Manager's affairs and the conduct of its business and is responsible for the overall governance of the Manager. The Board's function is largely separate from, and independent of, the executive management function. The Board leads and guides the Manager's corporate strategy and direction. Day-to-day management functions and certain supervisory functions have been delegated to relevant committees of the Board and a schedule of matters specifically reserved to the Board has been formally adopted. The Board exercises its general powers within the limits defined by the Manager's articles of association ("Articles of Association"), with a view to ensuring that management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board will also review major financial decisions and the performance of the Manager. In accordance with the REIT Code, the Manager is required to act in the best interests of the Unitholders, to whom it owes a fiduciary duty.

Roles of the Key Board Members

The roles of the key members of the Board are as follows:

- Chairman - responsible for the overall leadership of the Board and the Manager generally.
- Chief Executive Officer - responsible for the day-to-day operations of the Manager and supervises the Manager's management team to ensure that GZI REIT is operating in accordance with its stated strategies, policies and regulations.
- INEDs - govern the Manager through the Board and their participation in Board committees.

Board Composition

The composition of the Board is determined using the following principles:

- the Board should comprise Directors with a broad range of commercial experience, including expertise in funds management and the property industry; and
- at least one-third of the Board (and, in any event, not less than three Directors) should comprise INEDs.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

Board Committees

The Board has the power to delegate to committees consisting of such numbers of its body as it thinks fit. Various committees have been established to assist the Board in discharging its responsibilities. The committees of the Board have been set up with clear terms of reference to review specific issues or items and to then submit their findings and recommendations to the full Board for consideration and endorsement. Unless the decision making power has been vested in the relevant committee by the Board, the ultimate responsibility for making final decisions rests with the full Board and not the committees.

The committees of the Board are as follows:

Audit Committee

The Audit Committee comprises INEDs only (at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise) and should have at least three members. Among other matters, it reviews the completeness, accuracy and fairness of GZI REIT's financial statements and considers the scope, approach and nature of internal and external audit reviews, and is responsible for the overall risk management. The Audit Committee appoints external auditors, reviews their reports and guides management to take appropriate actions to remedy faults or deficiencies identified in internal control. The Audit Committee is also responsible for reviewing and monitoring connected party transactions.

Finance and Investment Committee

The Finance and Investment Committee comprises four Directors, including the Chairman, the Chief Executive Officer and at least one INED. It is responsible for, among other matters, evaluating and making recommendations on proposed acquisitions and disposals of assets, approve budgets and review actual expenses on all key expenditures and reviewing the quarterly financial performance, forecasts and annual financial plan of the Manager and GZI REIT. The Finance and Investment Committee also reviews and recommends changes to financial authorities, policies or procedures in areas such as accounting, taxes, treasury, distribution payout, investment appraisal, management and statutory reporting.

Disclosures Committee

The Disclosures Committee comprises the Chief Executive Officer and at least one INED. Among other matters, it is responsible for reviewing matters relating to the regular, urgent and forward looking disclosure of information to Unitholders and public announcements and circulars. The Disclosures Committee also oversees compliance with applicable legal requirements (including those relating to GZI REIT's connected party transactions) and the continuity, accuracy, clarity, completeness and currency of information disseminated by the Manager and GZI REIT to the public and applicable regulatory agencies.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises the Chief Executive Officer and at least three other Directors, one of whom must be an INED. Among other matters, it reviews the terms and conditions of employment of all staff and Directors (other than the members of the Remuneration Committee, whose remuneration is determined by the Board) and recommends the manpower deployment plan (including the succession plan for the management of the Manager and the Board), remuneration and retirement policies and packages. It ensures that no Director is involved in deciding his own remuneration. It is also responsible for reviewing the structure, size and composition of the Board and its committees on an ongoing basis and for nominating, and providing recommendations on, persons for appointment, re-appointment or removal as Directors. If a member of the Remuneration and Nomination Committee is subject to re-appointment or removal, then such Director will abstain from participating in such discussions.

Board Meetings

Board meetings will normally be held at least four times a year at approximately quarterly intervals. To ensure that Directors will be given sufficient time to consider the issues to be tabled at the various Board meetings, details of the venue, time and agenda of the meeting are required to be given at least 10 clear days in advance of the meeting (except if there are exceptional circumstances or if the majority of Directors agree to a shorter period of notice).

No Board meeting, or any adjourned Board meeting, will be quorate unless a simple majority of Directors for the time being (excluding any Directors which the Manager has a right to exclude for that purpose, whether pursuant to a contract or otherwise) are present at the time when the relevant business is transacted. A Director who, whether directly or indirectly, has a material interest in a contract or proposed contract with the Manager, which is of significance to the Manager's business, must declare the nature of his interest either at the earliest Board meeting or by giving a general notice to the Directors before the question of entering into the contract is taken into consideration on behalf of the Manager.

A Director who is prohibited from voting by reason of a conflict of interest will not be counted for the purposes of establishing the necessary quorum for the meeting.

Matters to be considered by the Board will be adopted on the basis of a simple majority of votes.

Appointment and Removal of Directors

Directors may be nominated for appointment by the Board following a recommendation made by the Remuneration and Nomination Committee. All Directors will be appointed for specific terms. One-fourth of the INEDs who are subject to retirement by rotation (if necessary, rounded up to the nearest whole number) will retire at every annual general meeting from and including the first annual general meeting and the retiring Directors on each occasion will be those who have been longest in office since their last appointment or re-appointment, but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree amongst themselves) be determined by lot. INEDs will be eligible for re-appointment up to a maximum period in office of nine years. There is no maximum term for other Directors.

The Chairman has been appointed for an initial term of three years. Upon the expiration of such initial term, he may be re-appointed as a Chairman for up to a maximum period in office of six consecutive years (including the initial term).

A Director may also be removed from office if served with a notice of removal signed by all of the other Directors. An outgoing Director must abstain from voting in respect of a resolution proposed at a Board meeting in respect of the appointment of his successor or his re-appointment.

Pursuant to the Articles of Association, a Director will need to vacate his office in certain circumstances, such as in the event that he becomes bankrupt, is convicted of an indictable offence, has been absent from Directors meetings for six months or more without special leave of absence from the Board or fails to comply with the required standard set out in any code of conduct adopted by the Board and the Board resolves that he is thereby disqualified to continue as a Director.

General Meetings

GZI REIT will in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The Trustee or the Manager may at any time convene a meeting of Unitholders. The Manager will also convene a meeting if requested in writing by not less than two Unitholders registered as together holding not less than 10.0% of the issued and outstanding Units. At least 21 days' notice of the meeting will be given to the Unitholders and the notice will specify the time and place of the meeting and the resolutions to be proposed.

Two or more Unitholders present in person or by proxy registered as holding not less than 10.0% of the Units for the time being in issue will form a quorum for the transaction of all business, except for the purpose of passing a Special Resolution. The quorum for passing a Special Resolution will be two or more Unitholders present in person or by proxy registered as holding not less than 25.0% of the Units in issue. The quorum for an adjourned meeting shall be such number of Unitholders who are present in person or by proxy regardless of the number of Units held by them.

Reporting and Transparency

GZI REIT will prepare its financial statements in accordance with Hong Kong Financial Reporting Standards with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and financial statements for GZI REIT will be published and sent to Unitholders no later than four months following each financial year-end and the interim results no later than two months following each financial half-year. In addition, GZI REIT aims to provide Unitholders with relevant operational information, such as occupancy levels and utilisation rates of the properties that it holds, along with the publication of such financial results following each financial year-end and financial half-year.

As required by the REIT Code, the Manager will ensure that public announcements of material information and developments with respect to GZI REIT will be made on a timely basis in order to keep Unitholders appraised of the position of GZI REIT. Announcements will be made either by publishing them in at least one leading Hong Kong English language and one Chinese language daily newspaper.

Distribution Payments

In accordance with the Trust Deed, GZI REIT is required to distribute not less than 90% of Total Distributable Income to Unitholders. The Manager's policy is to distribute to Unitholders 100.0% of GZI REIT's Total Distributable Income for each of the 2006, 2007 and 2008 financial years and thereafter at least 90.0% of GZI REIT's annual Total Distributable Income in each financial year.

Issues of Further Units Post-Listing

To minimise the possible material dilution of holdings of Unitholders, any further issue of Units will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of Units be first offered on a pro rata pre-emptive basis to existing Unitholders except that Units may be issued: (i) free of such pre-emption rights; (ii) as consideration for the acquisition of additional real estate; and (iii) free of pre-emption rights in other circumstances provided that the approval of Unitholders by way of an ordinary resolution is obtained, provided that the number of Units issued under (i) and (ii) shall not exceed an aggregate maximum in any financial year of 20.0% of the number of Units in issue at the end of the previous financial year.

The Manager and GZI REIT may consider structuring an employee option scheme . The adoption of any such scheme will, however, be subject to approval by the Board and the Unitholders. The Manager and GZI REIT will also observe the restrictions in the REIT Code which prevent issues of new Units to connected persons unless: (i) specifically approved by Unitholders by way of ordinary resolution at a general meeting; and (ii) an announcement, circular or notice is issued, in each case in accordance with the requirements set out in the REIT Code.

Interests of, and Dealings in Units by, the Manager as well as Directors and Senior Management of the Manager

To monitor and supervise any dealings of Units by Directors and their associates, the Manager has adopted a code containing rules on dealings by the Directors and associated parties ("Code Governing Dealings in Units by Directors") equivalent to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules. Pursuant to this code, Directors wishing to deal in the Units must first have regard to Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct as if these provisions of the SFO applied to the securities of GZI REIT. In addition, there are occasions where Directors cannot deal in the Units even though the requirements of the SFO, if it applied, would not be contravened. In addition, a Director must not make any unauthorised disclosure of confidential information or make any use of such information for the advantage of himself or others. The Manager shall be subject to the same disclosure requirements as the Directors, mutatis mutandis.

Directors who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or connected party transactions under the REIT Code or any price-sensitive information must refrain from dealing in the Units as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules. Directors who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors who are not so privy that there may be unpublished price-sensitive information and that they must not deal in GZI REIT's securities for a similar period.

Interests held by Directors and their associates will be published in the annual and interim reports of GZI REIT. To facilitate this, the Manager has adopted a code containing rules on disclosure of interests by Directors. The Manager shall be subject to the same dealing requirements as the Directors, mutatis mutandis.

The above codes may also be extended to senior executives, officers and other employees of the Manager or GZI REIT as the Board may determine.

The Manager has also adopted procedures for monitoring of disclosure of interests by Directors, the chief executive of the Manager, and the Manager. The provisions of Part XV of the SFO are deemed by the Trust Deed to apply to, among other things, the Manager, the Directors and chief executive of the Manager and each Unitholder and all persons claiming through or under him.

Under the Trust Deed, Unitholders with a holding of 5.0% or more of the Units in issue will have a notifiable interest and will be required to notify the Hong Kong Stock Exchange, the Trustee and the Manager of their holdings in GZI REIT. The Manager shall keep a register for these purposes and it shall record in the register, against a person's name, the particulars provided pursuant to the notification and the date of entry of such record. The said register shall be available for inspection by the public without charge during such hours as the register of Unitholders is available for inspection. In addition the Manager shall create a website prior to the Listing Date and maintain such website for the duration of GZI REIT. The Manager shall cause copies of all disclosure notices received to be promptly posted to its website.

Further, the Manager shall publish a notice in one leading Hong Kong English language and one Chinese language daily newspaper whenever a disclosure notification is made which, in the opinion of the Manager, is or is likely to require a notice to be published in order to keep Unitholders and the public adequately informed of material price sensitive information relating to the ownership of Units.

Corporate Governance

Matters to be Decided by Unitholders by Special Resolution

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of Unitholders by way of special resolution. Such matters include, among other things, removing the Trustee, removing the Manager and approving the termination of GZI REIT.

Confirmation of Compliance with Code Governing Dealings in Units by Directors

Specific enquiry has been made of all Directors and Manager and all of them confirmed they had complied with the required standard set out in the Code Governing Dealings in Units by Directors.

Public Float

Based on the information that is publicly available as at the date of this report, the Manager reports there was more than 25% of the Units held in public hands as required under the Listing Rules and the REIT Code.

Compliance with Compliance Manual

The Manager has complied with the provisions of its Compliance Manual.

Auditors

The accounts of GZI REIT have been audited by PricewaterhouseCoopers. They have been re-appointed for performing the audit for the financial year ending 31 December, 2006.

The connected party transaction rules of the REIT Code govern transactions between the GZI REIT Group and its connected persons (as defined in Rule 8.1 of the REIT Code). Such transactions will constitute connected party transactions for the purposes of the REIT Code.

GZI REIT's connected persons (as defined in Rule 8.1 of the REIT Code) includes, among others:

— significant holders (as defined in Rule 8.1 of the REIT Code);

— the Trustee and companies within the same group as well as associated companies (as defined in Rule 2.2 of the REIT Code) of the Trustee, and the directors, senior executives and officers of the Trustee and their respective associates (as defined under the SFO). As a result, GZI REIT's connected persons include HSBC Holdings plc and other members of its group since the Trustee is an indirect wholly-owned subsidiary of HSBC Holdings plc;

— the Manager as well as controlling entities (as defined under the SFO), holding companies (as defined under the SFO), subsidiaries (as defined under the SFO) and associated companies (as defined in Rule 2.2 of the REIT Code) of the Manager; and

— the Directors, senior executives and officers of the Manager and their respective associates. The associates of the Directors include (amongst others) other companies of which they are directors.

The Manager and Significant Holder Group

Set out below is the information in respect of the connected party transactions involving GZI REIT and its connected persons (as defined in Rule 8.1 of the REIT Code):

Leasing Transactions

Certain portions of the Properties have been leased to connected persons (as defined under the REIT Code) of GZI REIT which are so connected as a result of their connection with the Manager ("Manager Group"). Details are as follows:

Property	Tenant	Location of unit	GFA (sq.m.)	Gross Rentable Area (sq.m.)	Lease commencement date	Monthly rent (Rmb)	Monthly rent per sq.m. (Rmb)	Rent free period (days)	Term (years)
City Development Plaza Units	Yicheng [1]	1st storey	97.0	97.0	1 May, 2004	485	5	0	2
	Xingye [2, 5]	1st storey	881.2	881.2	15 Sep 2003	110,144	125	0	2.25
	Xingye [2, 5]	2nd storey	647.6	647.6	1 Nov 2003	42,095	65	0	2
	GZI [3]	16th storey	1,060.5	1,060.5	1 Jan 2005	95,444	90	0	3
	Guangzhou office of Yue Xiu [4]	16th storey	46.1	46.1	1 Jan 2005	4,150	90	0	3

1. an associate of the Manager
2. an associate of the Manager
3. Being a significant holder
4. Being a significant holder
5. These leases have been renewed in December, 2005 for a further term of 3 years with rent for the 1st storey unit increased to RMB135 per sq. m. and for the 2nd storey increased to RMB$70 per sq. m. subject to certain right to early termination exercisable by Full Estates if higher rates for the leased units were offered by prospective tenants and such offer not matched by Xingye.

During the Relevant Period, the aggregate amount of rent payable to GZI REIT by virtue of the above leases amounted to approximately HK$86,000.

Connected Party Transactions

Property Management Agreements

On 7 December, 2005, Partat, a wholly-owned subsidiary of GZI REIT, White Horse JV, a subsidiary of GZI and an associated company of the Manager, and Guangzhou Xi Jiao Villagers' Committee appointed White Horse Property Management Company, a subsidiary of GZI and an associated company of the Manager, to manage the common areas in White Horse Building. On the same day, Partat and White Horse JV entered into another agreement with White Horse Property Management Company for the provision of property management services in respect of the portions of White Horse Building owned by Partat and White Horse JV for a period of three years from 19 October, 2005 to 18 October, 2008. Under this agreement, White Horse Property Management Company is entitled to collect a monthly property management fee charged at the rate of RMB50 per sq.m. of GFA comprised in the portions of White Horse Building owned by Partat and White Horse JV. The fee is payable by Partat and White Horse JV (in respect of vacant portions of White Horse Building owned by them) and by the tenants in all other cases. Pursuant to the provisions contained in a tenancy services agreement entered into between Partat and White Horse Property Management Company on 7 December, 2005, White Horse Property Management Company agreed to bear any management fees in respect of vacant units payable by Partat under the above property management agreement.

On 7 December, 2005, Keen Ocean, a wholly-owned subsidiary of GZI REIT, and GCCD, a subsidiary of GZI and an associated company of the Manager, have appointed Guangzhou Yicheng Property Management Ltd. ("Yicheng"), a subsidiary of GZI and an associated company of the Manager, to manage the common areas in Victory Plaza. Under this agreement, Yicheng is entitled to collect a monthly property management fee charged at the rate of RMB48 per sq.m. of Victory Plaza's GFA. The fee is payable by Keen Ocean in respect of vacant portions of Victory Plaza and by the tenants in all other cases. Pursuant to the provisions contained in a tenancy services agreement entered into between Keen Ocean and Yicheng on 7 December, 2005, Yicheng agreed to bear any management fees in respect of vacant units payable by Keen Ocean under the above agreement.

The owners committees of Fortune Plaza and City Development Plaza (each acting for and on behalf of all the owners and tenants of Fortune Plaza and City Development Plaza respectively) appointed Yicheng to manage the common areas in Fortune Plaza and City Development Plaza respectively. The agreement for Fortune Plaza was entered into on 1 July, 2005 and is for a duration of three years from 1 July, 2005 to 30 June, 2008. The agreement for City Development Plaza was entered into on 15 July, 2005 and is for a duration of five years from 19 July, 2002 till 18 July, 2007. Under these agreements, Yicheng is entitled to collect a monthly property management fee charged at the rate of RMB25 per sq.m. for the office portion of and RMB35 per sq.m. for the commercial portion of Fortune Plaza's GFA, and City Development Plaza's GFA repectively. Pursuant to the provisions contained in two tenancy services agreement entered into between Moon King and Full Estate with Yicheng on 7 December, 2005, Yicheng agreed to bear any management fees in respect of vacant Units payable by Moon King, a wholly-owned subsidiary of GZI REIT, and Full Estates, a wholly-owned subsidiary of GZI REIT, under these property management agreements.

As the tenants in the Properties (and not the SPVs) pay the property management fees of Yicheng and White Horse Property Management Company as property managers of the Properties, no property management fees were paid by the SPVs to the relevant connected person.

Tenancy Services Agreements

On 7 December, 2005, the Manager and each of Full Estates, Moon King and Keen Ocean have entered into a tenancy services agreement with Yicheng while the Manager and Partat have entered into a tenancy services agreement with White Horse Property Management Company both of which are for a term of 3 years until 7 December, 2008, whereby Yicheng and White Horse Property Management Company agreed to provide leasing, marketing and tenancy services to each of the SPVs relating to the Properties.

Each of the tenancy services agreements relating to the Fortune Plaza units, the City Development Plaza units and the Victory Plaza units provides for payment by the relevant SPV to Yicheng of a monthly fee of 4.0% per annum of the gross revenue of the relevant Property. The tenancy services agreement relating to the White Horse Units provides for payment by Partat to White Horse Property Management Company of a monthly fee of 3.0% per annum of the gross revenue of the White Horse Units.

Yicheng and White Horse Property Management Company have agreed that, for so long as they are also the property managers of the relevant Properties, their fees as leasing agent under the tenancy services agreements shall also satisfy the property management fees which they are entitled to receive from the relevant SPVs for any vacant units in the Properties under the various property management arrangements.

During the Relevant Period, the aggregate amount of fees payable by GZI REIT to Yicheng and White Horse Property Management Company under these tenancy services agreements was approximately HK$241,000.

Trade Mark Licence Agreements

Six licence agreements, each dated 7 December, 2005, have been entered into between Partat and White Horse Property Management Company pursuant to which White Horse Property Management Company has granted Partat the exclusive right to use six of its registered trademarks of different classes in the PRC from the effective date of the agreement (i.e., 7 December, 2005) to 31 December, 2006 in accordance with the terms of the licence agreements for a nominal fee of RMB1.00 with the right to extend, subject to certain conditions, the term of such licences.

Yue Xiu and the Manager entered into a licence agreement dated 7 December, 2005 pursuant to which Yue Xiu granted to the Manager (acting in its capacity as manager of GZI REIT) the right and licence to use and sub-licence certain "Yue Xiu" trademarks in connection with the business of GZI REIT in the PRC and Hong Kong for a nominal consideration of HK$1.00 in perpetuity commencing on 21 December, 2005, subject to early termination pursuant to the terms thereof.

Waiver from Strict Compliance

A waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the lease transactions, property management agreements and tenancy services agreements described above have been granted by the SFC on 8 December, 2005 subject to annual caps, review by the auditors for each relevant financial period, annual review by the Audit Committee and the Independent Non-executive Directors ("INEDS") and other terms and conditions ("Waiver Letter"). Particulars of the waiver and its detailed terms and conditions have been published in the Offering Circular.

Connected Party Transactions

HSBC Group

Note: "HSBC Group" means The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and its subsidiaries and, unless expressly stated, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of GZI REIT).

Leasing Transactions

Certain portions of the Properties have been leased to members of the HSBC Group. Details are as follows:

Property	Tenant	Location of Unit	GFA (sq.m.)	Gross Rentable Area (sq.m.)	Lease commencement date	Monthly rent (Rmb)	Monthly rent per sq.m. (Rmb)	Rent free period (days)	Term (years)
Fortune Plaza Units	HSBC Electronic Data Processing (Guangdong) Limited	4th storey	4,275.1	4,275.1	16 Feb 2005	354,833	83	60	3
		5th storey	4,275.1	4,275.1	1 May, 2005	354,833	83	90	2.25

During the Relevant Period, the aggregate amount of rent payable to GZI REIT by virtue of the above leases amounted to approximately HK$242,000.

Corporate Finance Transactions

The SPVs (as borrowers) and GZI REIT Holding 2005 Limited ("REIT Holdco")(as guarantor) entered into a facility agreement with certain lending banks on 7 December, 2005 for a three year floating rate term loan facility of US$165 million to be drawn on the Listing Date. To secure the SPVs' obligations under the loan on a pari passu and pro rata basis, a security package, including registered mortgage over each Property and the SPV shares, assignment of rental income and all other proceeds arising from each of the Property and of all tenancy agreements relating to the Properties, has been granted in favour of a security trustee to hold on behalf of the lending banks. HSBC was one of the lending banks and acted as the agent and security agent of the lending banks. On 21 December, 2005, the facility was drawn by GZI REIT in full, as to US$63.9 million was advanced by HSBC and the same principal amount remained outstanding as at 31 December, 2005.

In conjunction with the loan facility, each of the SPVs has also entered into agreements with each of the lending banks for US$/RMB non-deliverable swap facilities covering the swap of a floating rate US dollar liability into a synthetic RMB liability with a series of fixed rate cash flows denominated in RMB, payable in US dollars, with a principal exchange at maturity also settled in US dollars for an aggregate notional principal amount of US$165 million for a minimum tenor of three years. HSBC was one of the swap providers and participated in the swap for US$63.9million/RMB516.5 million.

The SPVs' obligations under the swap agreements are secured, pari passu and pro rata, on the security package described above. They have also granted guarantees in favour of the lending banks (as swap providers) to secure their obligations under the swap agreement. During the Relevant Period, total financing fees and other fees under the swap agreements in the amount of HK$7.567 million and interest under the facility agreement in the amount of HK$491,000 were payable by GZI REIT to HSBC.

Ordinary Banking Services

REIT Holdco, Partat, Keen Ocean, Full Estates and Moon King has opened interest bearing accounts with HSBC for deposits within the Relevant Period at arm's length and on commercial terms.

Waiver from Strict Compliance

A waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code in respect of the above transactions with connected persons (as defined in Rule 8.1 of the REIT Code) of the Trustee has been granted by the SFC on 8 December, 2005 subject to specific caps on fees payable by GZI REIT for corporate finance services, review by the auditors for each relevant financial period, annual review by the Audit Committee and the INEDs and other terms and conditions. Particulars of the Waiver Letter and its terms conditions have been published in the Offering Circular.

Confirmation by the Audit Committee and the INEDs

The INEDs and the Audit Committee of the Manager confirm that they have reviewed the terms of all relevant connected party transactions including those connected party transactions with the Manager Group and the HSBC Group and that they are satisfied that these transactions have been entered into:

(a) in the ordinary and usual course of business of GZI REIT;

(b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to GZI REIT than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement and the Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

Agreed-upon Procedures Performed by the Auditors of GZI REIT

Pursuant to the waiver from strict compliance with the disclosure and Unitholders' approval requirement under Chapter 8 of the REIT Code , the Manager has engaged the auditors of the GZI REIT ("the Auditors") to perform certain agreed-upon procedures in respect of the connected party transactions described above during the Relevant Period in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have performed these procedures and reported to the Board their factual findings that the connected transactions:

(a) have received the approval of the Board (including the INEDs);

(b) are in accordance with the pricing policies of GZI REIT, where applicable;

(c) have been entered into in accordance with the terms of the agreements governing such transactions; and

(d) the total value in respect of which has not exceeded the relevant cap amounts as prescribed the Waiver Letter.

Confirmation by the Manager and Trustee of corporate finance transaction with the HSBC Group

Both the Manager and the Trustee confirm that there is no corporate finance transaction and other connected transaction (save and except for those disclosed hereinabove) with the HSBC Group during the Relevant Period.

Connected Party Transactions

Holdings of the Manager and Directors and Chief Executive Officer of the Manager

The REIT Code requires that connected persons (as defined in Rule 8.1 of the REIT Code) of GZI REIT disclose their interests in Units. As well, the provisions of Part XV of the SFO are deemed by the Trust Deed to, apply to among other things, the Manager, the Directors and the Chief Executive of the Manager.

The interests and short positions and Chief Executive Officer of the directors of the Manager in Units, which are required to be recorded in the register maintained by the Manager under Schedule 3 of the Trust Deed are set out below:

Interests and Short Positions in the Units:

Name of Director	Nature of Interest	As at 21 December, 2005 Beneficial interests in Units	As at 21 December, 2005 Approximate % of interest	As at 31 December, 2005 Beneficial interests in Units	As at 31 December, 2005 Approximate % of interest	% change in Holdings
Mr Liang Ningguang[1]	—	Nil	—	Nil	—	—
Mr Liu Yongjie[2]	—	Nil	—	Nil	—	—
Mr Liang Youpan	—	Nil	—	Nil	—	—
Mr Chan Chi On, Derek	—	Nil	—	Nil	—	—
Mr Lee Kwan Hung, Eddie	—	Nil	—	Nil	—	—
Mr Chan Chi Fai, Brian	—	Nil	—	Nil	—	—

1 Mr. Liang Ningguang is also a director of Yue Xiu and therefore Yue Xiu is deemed to be an associate of Mr. Liang under Rule 8.1 of the REIT Code. Accordingly, the holdings of Yue Xiu as disclosed in "Holdings of Significant Holders" are deemed to be the holdings of Mr. Liang.

2 Mr. Liu is also the Chief Executive Officer of the Manager.

HOLDINGS OF SIGNIFICANT HOLDERS

The following persons have interests or short position in the Units which were recorded in the register required to be kept by the Manager under Schedule 3 of the Trust Deed:

1. Long position in the Units:

Name of Substantial Unitholder	Nature of Interest	As at 21 December, 2005 Interests in Units	As at 21 December, 2005 Approximate % of interest	As at 31 December, 2005 Interests in Units	As at 31 December, 2005 Approximate % of interest	% change of interest
Yue Xiu Enterprises	Beneficial	27,320	0%	27,320	0%	—
(Holdings) Limited	Deemed	408,776,760	40.88%	408,776,760	40.88%	—
("Yue Xiu")[1]	Total	408,804,080	40.88%	408,804,080	40.88%	—
GZI[2]	Beneficial	—	—	—	—	—
	Deemed	400,730,495	40.07%	400,730,495	40.07%	—
	Total	400,730,495	40.07%	400,730,495	40.07%	—
Dragon Yield	Beneficial	400,730,495	40.07%	400,730,495	40.07%	—
	Deemed	—	—	—	—	—
	Total	400,730,495	40.07%	400,730,495	40.07%	—

1: Further information in relation to interests of corporations controlled by Yue Xiu

Name of Controlled Corporation	Name of Controlling Shareholder	% Control	Direct interest (Y/N)	Number of Shares Long Position	Short Position
Excellence Enterprises Co., Ltd.	Yue Xiu Enterprises (Holdings) Limited	100.0	N	408,665,530	87,450,000
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	N	400,730,495	87,450,000
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	Y	5,698,282	—
Guangzhou Investment Company Limited	Bosworth International Limited	34.98	N	400,730,495	87,450,000
Dragon Yield Holding Limited	Guangzhou Investment Company Limited	100.0	Y	400,730,495	87,450,000
Sun Peak Enterprises Ltd.	Excellence Enterprises Co., Ltd.	100.0	N	1,414,207	—
Novena Pacific Limited	Sun Peak Enterprises Ltd.	100.0	Y	1,414,207	—
Shine Wah Worldwide Limited	Excellence Enterprises Co., Ltd.	100.0	N	395,122	—

2. The deemed interest in 400,730,495 Units were held through Dragon Yield, a 100% owned subsidiary.

2. Short position* in the Units

Name of Substantial Unitholder	Nature of Interest	As at 21 December, 2005 Number of Units	Approximate % of interest	As at 31 December, 2005 Number of Units	Approximate % of interest	% change of interest
Yue Xiu [1]	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
GZI [1]	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
Dragon Yield	Beneficial	87,450,000	8.75%	87,450,000	8.75%	—
	Deemed	—	—	—	—	—

1. The deemed interest in 87,450,000 Units were held through Dragon Yield.

* These short positions were held in relation to the over-allocation option granted to the underwriters of the IPO.

HOLDINGS OF OTHER CONNECTED PERSONS

Senior Executives of the Manager

The following senior executives of the Manager, being connected persons (as defined under the REIT Code) of GZI REIT, held the following interest in the Units:

Name of Senior Executive	Nature of interest	As at 21 December, 2005 Interests in Units	Approximate % of interest	As at 31 December, 2005 Interests in Units	Approximate % of interest	% change of interest
Ms. Ko Yung Lai, Jackie	Personal	8,125	0%	8,125	0%	—
Mr. Cheng Jiuzhou	Personal	480	0%	480	0%	—
Mr. Ip Wing Wah	Personal	1,900	0%	1,900	0%	—

Trustee

The following persons being associates of the Trustee and deemed connected jpersons (as defined under the REIT Code) of GZI REIT, held the following interests in Units:

Short Position and Long Postion in Units*

Name of HSBC entity	Nature of interest	As at 21 Decemeber, 2005 Interest in Units	Approximate % of interest	As at 31 December, 2005 Interest in Units	Approximate % of interest	% change of interest
HSBC Holdings Plc**	Beneficial	87,450,000	8.75%	87,450,000	8.75%	—
	Deemed	—	—	—	—	—
	Total	87,450,000	8.75%	87,450,000	8.75%	—
HSBC Finance (Netherlands)**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
	Total	87,450,000	8.75%	87,450,000	8.75%	—
HSBC Holdings BV**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
	Total	87,450,000	8.75%	87,450,000	8.75%	—
HSBC Asia Holdings (UK)**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
	Total	87,450,000	8.75%	87,450,000	8.75%	—

Name of HSBC entity	Nature of interest	As at 21 Decemeber, 2005 Interest in Units	Approximate % of interest	As at 31 December, 2005 Interest in Units	Approximate % of interest	% change of interest
HSBC Asia Holdings BV**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
	Total	87,450,000	8.75%	87,450,000	8.75%	—
The Hongkong and Shanghai Banking Corporation Limited**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	87,450,000	8.75%	—
	Total	87,450,000	8.75%	87,450,000	8.75%	—

* This relates to over allocation option granted to Joint Global Coordinator pursuant to International Underwriting Agreement.

The Hongkong and Shanghai Banking Corporation Limited was one of the Joint Global Coordinators.

** This entity is the controlling entity of the Trustee.

Save as disclosed above, the Manager is not aware of any connected persons (as defined in Rule 8.1 of the REIT Code) of GZI REIT, including the Trustee and Colliers International (Hong Kong) Ltd. holding any Units as at 31 December, 2005.

Unit Options

At no time during the Relevant Period was GZI REIT or any of its controlled entities a party to any arrangements which enable the Directors of the Manager (including, their spouses and children under 18 years of age) to acquire benefits by means of acquisition of Units or any equity derivatives in GZI REIT or any other body corporate.

Manager's Fees

During the Relevant Period, the aggregate amount of fees payable by GZI REIT to the Manager under the Trust Deed was approximately HK$573,000.

Trustee's Fees

During the Relevant Period, the aggregate amount of fees payable by GZI REIT to the Trustee under the Trust Deed was approximately HK$160,000.

Principal Valuer's Fees

During the Relevant Period, the aggregate amount of fees payable by GZI REIT to the Valuer for the preparation of a valuation report of the Properties was HK$200,000.

Colliers International (Hong Kong) Ltd
Company Licence No: C-006052
Suite 5701 Central Plaza
18 Harbour Road Wanchai
Hong Kong
高力國際物業顧問(香港)有限公司
香港灣仔港灣道18號中環廣場5701室
Tel 852 2828 9888
Fax 852 2107 6015

www.colliers.com

18 April, 2006

GZI REIT Asset Management Limited ("Manager")
24th Floor, Yue Xiu Building
160 - 174 Lockhart Road
Wanchai, Hong Kong

HSBC Institutional Trust Services (Asia) Limited ("Trustee")
1 Queen's Road Central
Central, Hong Kong

Dear Sirs,

Re: Valuations of various units of the properties (the "Subject Properties") held by GZI Real Estate Investment Trust ("GZI REIT") located in White Horse Building, Fortune Plaza, City Development Plaza and Victory Plaza, Guangzhou, Guangdong Province, The People's Republic of China (the "PRC")

With reference to the instruction of the Manager on behalf of GZI REIT, we have prepared a report setting out our opinion of the value of the Subject Properties for annual accounting purposes.

We confirm that our valuation report is prepared on a fair and unbiased basis and we have carried out external and internal inspections, made relevant enquiries and obtained such further information as we consider necessary to allow us to provide you with our opinion of values of the Subject Properties as at 31 December, 2005 (the "Date of Valuation").

The summary of market values of the Subject Properties is as follows:

1.	White Horse Building	HK$2,574,000,000
2.	Forture Plaza	HK$554,800,000
3.	City Development Plaza	HK$392,000,000
4.	Victory Plaza	HK$533,000,000
		HK$4,053,800,000

This report is for the use of the above addressee and for the purposes indicated and no liability to any third party can be accepted for the whole or any part of the contents of the document. Neither the whole nor any part of this valuation report nor any reference thereto may be included in any other published documents, circular or statement, nor published in any way whatsoever without prior written approval of Colliers International (Hong Kong) Limited as to the form and context in which it may appear.

We hereby confirm that: -

i) We have no present or prospective interest in the Subject Properties and are not a related corporation of nor have a relationship with the Manager, the Trustee or any other party or parties whom GZI REIT is contracting with;

ii) We are authorised to practice as valuer and have the necessary expertise and experience in valuing similar types of properties;

iii) The valuations have been prepared on fair and unbiased basis; and

iv) The valuer is acting as an Independent Valuer as defined in the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

We hereby certify that the valuer undertaking these valuations is authorised to practice as valuer.

The valuation report is enclosed herewith.

Yours faithfully,
For and on behalf of
Colliers International (Hong Kong) Limited
David Faulkner
BSc (Hons) FRICS FHKIS RPS (GP) MAE
Regional Director
Valuation and Advisory

Note: David Faulkner is a Chartered Surveyor who has 17 years experience in the valuation of properties in the PRC and 21 years of property valuation experience in Hong Kong and the Asia Pacific region.

Property Valuation Report

1. EXECUTIVE SUMMARY

1.1 Qualification of the Valuers

The valuations have been prepared by David Faulkner who is a Fellow of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong Special Administrative Region ("Hong Kong").

He is suitably qualified to carry out the valuation and has over 25 years experience in the valuation of properties of this magnitude and nature, and over 17 years experience in the PRC.

We have no pecuniary interest that could reasonably be regarded as being capable of affecting our ability to give a fair and an unbiased opinion of the values or that could conflict with a proper valuation of the Subject Properties.

1.2 Information Sources

All investigations have been conducted independently and without influence from any third parties in any way. The information provided in this report has been obtained from the Manager, relevant bureaux, the Guangzhou Municipal People's Government and other public sources.

1.3 Instructions

We accepted instructions to conduct valuations of the Subject Properties as at the Date of Valuation from the Manager on behalf of GZI REIT for the annual accounting purposes.

Our valuations have been carried out in accordance with Chapter 6 of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission ("SFC") in August 2003 and amended in June 2005 and the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS. We have also made reference to the International Valuation Standards (7th Edition) published by the International Valuation Standards Committee in 2005.

Inspections of the Subject Properties were carried out in March 2006. We confirm that we have made relevant enquiries and obtained such information as we consider necessary to conduct the valuations.

2. BASIS OF VALUATION

Market Value

The valuations have been carried out in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS.

Our valuations are made on the basis of Market Value which we would define as intended to mean "the estimated amount for which a property should exchange on the dates of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the Subject Properties in their existing state based on the assumption that the Subject Properties can be freely transferred, mortgaged and let in the market and all proper title certificates have been obtained and land premiums have been fully settled.

3. VALUATION RATIONALE

In our valuations, we have valued the Subject Properties for which the areas are based on the proper title documents. In arriving at our opinion of values, we have considered prevailing market conditions, especially those related to the office, wholesale and retail property market sectors. We have also looked at lease reversionary potential such as future rent renewal rate, lease cycle duration and lease expiry profile. The valuation method adopted to arrive at our opinion of value is the Income Capitalisation Approach including Discounted Cash Flow Analysis.

The Income Capitalisation Approach reflects the specific characteristics of the Subject Properties such as lease expiry profile, existing tenant covenants and level of passing and reversionary rents. We therefore consider that this method is particularly relevant for REIT based purchasers.

The Discounted Cash Flow Analysis reflects additional property specific characteristics of the Subject Properties such as leases duration and potential rental income growth, renewed rates, vacancy rates and all outgoings.

In valuing the Subject Properties, we have used an average of the values derived using the Income Capitalisation Approach and the Discounted Cash Flow Analysis.

3.1 Income Capitalisation Approach

Income Capitalisation Approach estimates the values of the properties on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. In calculating the net rental income, no deduction has been made from the net passing rental income which is exclusive of property management fee.

In this valuation method, the total rental income is divided into a current passing rental income over the existing lease term (the term income) and a potential future reversionary rental income over the residual land use term (the reversionary income). The term value involves the capitalisation of the current passing rental income over the existing lease term. The reversionary value is taken to be current market rental income upon the expiry of the lease over the residual land use rights term and is capitalised on a fully leased basis. It is then discounted back to the date of valuation.

In this approach, we have considered the term yield and reversionary yield. The term yield is used for capitalisation of the current passing rental income as at the date of valuation whilst the reversionary yield is used to convert reversionary rental income.

3. VALUATION RATIONALE *(Continued)*

3.2 Discounted Cash Flow Analysis

This is defined in the International Valuation Standards (7th Edition) as a financial modeling technique based on explicit assumptions regarding the prospective cash flow to properties. This analysis involves the projection of a series of periodic cash flows to an operating property. To this projected cash flow series, an appropriate discount rate is applied to establish an indication of the present value of the income stream associated with the properties. In the operating real properties, periodic cash flow is typically estimated as gross income less vacancy and operating expenses and other outgoings. The series of periodic net operating incomes, along with an estimate of the terminal value, anticipated at the end of the projection period, is then discounted at the discount rate, being a cost of capital or a rate of return used to convert a monetary sum, payable or receivable in the future, into present value.

We have undertaken a discounted cash flow analysis on a monthly basis over a 10-year investment horizon. The net income in the Year 11 is capitalised at an appropriate yield for the remainder of the ownership term. This analysis allows an investor or owner to make an assessment of the long term return that is likely to be derived from a property with a combination of both rental income and capital growth over an assumed investment horizon. This analysis is generally used in valuing income producing properties.

In our assessment, we have assumed the Subject Properties are sold at the end of year 10 at a price based upon the forecast year 11 income, and capitalised by the terminal capitalisation rate for the remaining property lease term. The analysis is based on the assumption of a cash purchase. No allowance for interest and other funding costs have been incurred.

4. TITLE PARTICULARS

We have been provided with extracts from title documents relating to the Subject Properties. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. We have relied on the Manager, concerning the validity of the titles to the Subject Properties.

5. EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars. The exchange rate used in valuing the Subject Properties as at the Date of Valuation was HK$1 = RMB1.04. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this letter.

6. CAVEATS AND ASSUMPTION

The valuations are subject to the following caveats and assumptions.

(a) We have inspected the exterior and interior of the Subject Properties. No tests were carried out on any of the services.

(b) We have assumed that the Subject Properties are free from and clear of any and all charges, liens and encumbrances of an onerous nature likely to affect their values, whether existing or otherwise, unless otherwise stated. We assume no responsibility for matters legal in nature nor do we render any opinion as to the title which is assumed to be good and marketable. We are not aware of any easements or rights of way affecting the Subject Properties and our valuation assumes that none exists.

(c) We have assumed that the Subject Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances, except only where otherwise stated. We have further assumed that, for any use of the Subject Properties upon which this report is based, any and all required licences, permits, certificates, and authorisations have been obtained, except only where otherwise stated.

(d) Our valuations have been made on the assumption that the owners sell the Subject Properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of Subject Properties. In addition, no forced sale situation in any manner is assumed in our valuations.

(e) No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Subject Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Subject Properties are free from encumbrances including material building defects, restrictions and outgoings of an onerous nature which could affect their values.

(f) We have relied to a very considerable extent on the property information, including rent roll, floor plans, property particulars, etc. by the Manager.

(g) We have not carried out detailed site measurements to verify the correctness of the site and floor areas in respect of the Subject Properties but have assumed that the site and floor areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

(h) We have had no reason to doubt the truth and accuracy of the information provided to us by the Manager. We have sought confirmation from the Manager that no material factors have been omitted from the information supplied. We take no responsibility for inaccurate data provided by the Manager and subsequent conclusions derived from such data and information.

(i) The study of possible alternative development options and the related economics are not within the scope of this report.

Part A - White Horse Building

Valuation of various units of the property (the "Subject Property") held by GZI REIT located in White Horse Building, Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, Guangdong Province, the PRC.

1. SUMMARY OF THE SUBJECT PROPERTY

According to the information provided by the Manager, 9 Building Ownership Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Partat Investment Limited
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	According to the State-owned Land Use Right Grant Contract dated 28 June, 2005, the zoning of the underlying land of White Horse Building is described as "commercial/office".
4.	Interest Valued	:	Leasehold interest of the Subject Property.
5.	Property Description	:	The Subject Property forms a portion of a 10-storey wholesale garment shopping centre, including eight levels above ground, a lower ground level and a basement accommodating a car park.
6.	Gross Floor Area ("GFA") of the Subject Property	:	Total - 50,199.3 sq.m. Retail - 46,279.3 sq.m. Office - 3,920.0 sq.m. Lower Ground Level - 1,121.7 sq.m. Level 1 - 7,667.0 sq.m. Level 2 - 7,199.8 sq.m. Level 3 - 7,684.9 sq.m. Level 4 - 7,695.6 sq.m. Level 5 - 7,466.4 sq.m. Level 6 - 7,443.9 sq.m. Level 7 - 2,003.5 sq.m. Level 8 - 1,916.5 sq.m. Levels 1, 2, 3, 4, 5, 6, 7, 8 correspond to 2nd, 3rd, 4th, 5th, 6th, 7th, 8th and 9th storeys in White Horse Building respectively.
7.	Lease Term	:	Lower Ground Level - 50 years from 7 June, 2005 Level 1 - 40 years from 7 June, 2005 Level 2 - 40 years from 7 June, 2005 Level 3 - 40 years from 7 June, 2005 Level 4 - 7,164.2 sq.m. - 40 years from 7 June, 2005 Level 4 - 531.4 sq.m. - 50 years from 7 June, 2005 Level 5 - 50 years from 7 June, 2005 Level 6 - 50 years from 7 June, 2005 Level 7 - 50 years from 7 June, 2005 Level 8 - 50 years from 7 June, 2005

1. SUMMARY OF THE SUBJECT PROPERTY (Continued)

8.	Usage	:	Lower Ground Level - Storage Level 1 - Commercial Level 2 - Commercial Level 3 - Commercial Level 4 - Commercial/Office Level 5 - Office Level 6 - Office Level 7 - Office Level 8 - Office
9.	Internal Floor Area of the Subject Property	:	48,100.6 sq.m.
10.	Gross Rentable Area of the Subject Property	:	49,007.2 sq.m.
11.	Construction Completion Date of White Horse Building	:	1990 with extension and renovation thereafter between 1995 and 1997 as well as between 1998 and 2000
12.	Market Value in existing state as at the Date of Valuation	:	HK$2,574,000,000
13.	Net Passing Income as at the Date of Valuation	:	RMB117,055,044 per annum
14.	Estimated Market Rental Income as at the Date of Valuation	:	RMB254,124,912 per annum
15.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
16.	Term Yield	:	8%
17.	Reversionary Yield	:	9.5%
18.	Occupancy Rate as at the Date of Valuation	:	100%
19.	Vacancy Allowance	:	1%

2. TITLE INVESTIGATION

There is a Gongan Building erected on the south side of White Horse Building with a gross floor area of 2,700 sq.m. There was an agreement signed on 7 February, 1994 between Guangzhou City Construction & Development Group Co. Ltd. and Guangzhou City Gongan Bureau. Guangzhou City Construction & Development Group Co. Ltd. was responsible for the design, obtaining approval and construction of the Gongan Building. Guangzhou City Gongan Bureau was responsible for paying the construction cost as well as land premium of RMB950,000 to Guangzhou City Construction & Development Group. Guangzhou City Gongan Bureau could use the Gongan Building for the residual land use rights term. As advised by the Manager, we understand that the owner of the Subject Property does not have the right to use and the title ownership of Gongan Building but this will not affect Partat Investment Limited's title to the Subject Property.

3. THE SUBJECT PROPERTY

3.1 Situation, Locality and Zoning

White Horse Building, a 10-storey commercial wholesale centre for garment, including eight levels above ground, a lower ground level and a basement accommodating a car park, is located at No. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, Guangdong Province, the PRC. It is close to the Guangzhou Railway station and bus terminal.

The Subject Property is located in Yue Xiu District and its accessibility is considered to be good. The main garment wholesale area of Guangzhou is situated around Zhan Nan Road, Yue Xiu District. The area is very popular among wholesalers because of its location (close to the Guangzhou Railway Station and major expressways).

According to the State-owned Land Use Rights Grant Contract signed on 28 June, 2005, the zoning of the underlying land of White Horse Building is described as "commercial/office".

3.2 Surrounding Development and Environmental Issues

The Subject Property is located in Yue Xiu District. Developments in the area comprise mainly commercial buildings and retail shopping and wholesale centres, interspersed with some older medium-rise residential buildings.

The pedestrian traffic flow along that section of Zhan Nan Road West is heavy as it is opposite to the bus terminal and close to the Guangzhou Railway Station.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding to the previous development erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

3.3 Availability of and Access to Public Transport

General accessibility of White Horse Building is considered good as public transportation such as taxis and buses are available along Zhan Nan Road. Bus stops are located at 2 minutes walking distance from White Horse Building.

3. THE SUBJECT PROPERTY (Continued)

3.4 Car Accessibility and Road Frontage

White Horse Building is directly accessible from Zhan Nan Road. A pedestrian footbridge adjacent to the Subject Property allows access to the Guangzhou Railway Station. The Guangzhou Railway Station is also connected to No. 2 metro line.

3.5 Description of the Development

White Horse Building, a 10-storey commercial wholesale centre for garment, including eight levels above ground, a lower ground level and a basement accommodating a car park, is located at No. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou's traditional wholesale business area. According to the information provided by the Manager, the development has a total gross floor area of 61,703.0 sq.m.

The area breakdown of White Horse Building is summarized as below:

Level	**Usage**	**Gross Floor Area** *(sq.m.)*
Basement 1	Carpark, Machinery Room	5,690.9
Lower Ground Level	Storage	6,934.5
Level 1	Commercial	7,667.0
Level 2	Commercial	7,199.8
Level 3	Commercial	7,684.9
Level 4	Commercial/office	7,695.6
Level 5	Office	7,466.4
Level 6	Office	7,443.9
Level 7	Office	2,003.5
Level 8	Office	1,916.5
	Total:	61,703.0

The site of the wholesale centre comprises a regular and level plot having its main frontage onto Zhan Nan Road. White Horse Building was first completed in about 1990 and then extended into two separate phases in between 1995 and 1997 as well as between 1998 and 2000.

General accessibility of White Horse Building is considered good as public transportation such as buses and taxis are available along Zhan Nan Road.

Car parking facilities are accommodated within basement level 1.

The layout and design of White Horse Building is reasonable in comparison with other wholesale centres in the locality.

3. THE SUBJECT PROPERTY (Continued)

3.6 Portion of Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

Level	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
Lower Ground Level	Storage	1,121.7	1,081.1
Level 1	Commercial	7,667.0	7,342.6
Level 2	Commercial	7,199.8	6,892.2
Level 3	Commercial	7,684.9	7,359.8
Level 4	Commercial/office	7,695.6	7,370.0
Level 5	Office	7,466.4	7,149.2
Level 6	Office	7,443.9	7,127.5
Level 7	Office	2,003.5	1,931.0
Level 8	Office	1,916.5	1,847.2
	Total:	50,199.3	48,100.6

Upon our site inspection, we noted that Levels 1 to 6 were occupied as retail shops, Levels 7 and 8 were occupied as warehouse and office respectively. As advised by the Manager, Lower Ground Level comprises mainly common area including staircases and storage area, which is regarded as non-lettable area.

As advised by the Manager, Level 7 and Level 8 will be converted into retail use commencing from May 2006 after renovation upon the expiry of the current tenancies.

3.7 Specification, Services and Finishes of the Development

White Horse Building is constructed of reinforced concrete with part glazed and part mosaic tiling to the exterior elevations and is decorated with marble or granite wall and floor tiles at the main lobby. Main services comprise electricity, water and telecommunications.

The building is subdivided into various Units on all levels and is served by 8 passenger lifts and 2 cargo lifts serving Levels 1 to 6, 1 passenger lift and 1 cargo lift serving Levels 7 to 8, 2 pairs of escalators serving Levels 1 to 4 and 17 staircases serving Levels 1 to 8.

The standard of services and finishes within the development is considered to be reasonable, commensurating to other wholesale centres in the neighbourhood.

The building is maintained in a reasonable condition commensurate to its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system, fire extinguishers etc throughout the building.

3. THE SUBJECT PROPERTY (Continued)

3.8 Current Rental Income

As at the Date of Valuation, the Subject Property was fully leased.

According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

Gross Floor Area *(sq.m.)*	Monthly Net Rental Income *(RMB)*	Annual Net Rental Income *(RMB)*
50,199.3	9,754,587	117,055,044

According to the renewed tenancy agreements commencing from January, 2006, we understand that the renewed rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone and air-conditioning charges and etc.

According to the information provided by the Manager, the renewed tenancy agreements are at significantly higher rentals than the current passing rentals.

The Subject Property comprises various tenants from various industries such as bank, food & restaurants, garment wholesale centre and ancillary office and etc.

We are not aware of any material options or rights of pre-emption which may affect the value of the Subject Property.

3.9 Occupancy Rate

According to the information provided by the Manager, the Subject Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of 100% of the Subject Property held by GZI REIT. The Subject Property is occupied by various tenants such as Bank of Communication, Guangzhou Branch and various individuals' tenants.

3.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of the wholesales tenancies are on normal local commercial term.

The details of the lease term duration are shown as follows:

Lease term greater than *(year)*	Lease term less than or equal to *(year)*	By Area *(%)*
3	4	29.0
4	5	71.0
		100.0

3. THE SUBJECT PROPERTY (Continued)

3.10 Lease Cycle Duration and Expiry Profile (Continued)

In general, as advised by the Manager, the typical lease terms of the signed new tenancies commencing on January, 2006 vary between 4 and 5 years and are on normal local commercial terms.

According to the renewed leases, the details of the lease expiry profile are shown as follows:

% of tenancies due to expire in each year	**By Area**
	(%)
2009	29.0
2010 and beyond	71.0
Total	100.0

3.11 Summary of Material Rent Review Provisions

We understand that the Subject Property has no major material rent review provisions. According to the supplied documents and tenancy agreements, all the leases have been renewed commencing from January 2006 and the typical lease terms vary between 4 to 5 years. In our valuation, the renewed rentals have been taken into account.

The Manager is not aware of any sub-leases or tenancies in the Subject Property.

We are not aware of any sub-leases or tenancies and any material options or rights of pre-emption which may affect the value of the Subject Property and we have considered the renovation of Levels 7 and 8 for retail use commencing from May 2006.

3.12 Historic Outgoings

As advised by the Manager, the total property management income covers the total property management expenses.

3. THE SUBJECT PROPERTY (Continued)

3.13 Property Management

3.13.1 Tenancy Services Agreement

A tenancy services agreement was entered into between the Manager, Partat Investment Limited (the "Property Company") and White Horse Property Management Co. Ltd. (the "Leasing Agent") on 7 December, 2005 for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of White Horse Building) will be paid a remuneration of 3% per annum of the gross revenue ("Service Fees") receivable by the Property Company from the operation of the Subject Property. The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of White Horse Building, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant Units of the Subject Property under the property management agreement.

3.13.2 Property Management Fee

As advised by the Manager, the monthly management fees payable by the tenants commencing from 1 January, 2006 is about RMB50 per sq.m.

4. VALUATION

4.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Subject Property into a value through the process of capitalization. The most common method of converting net income into value is by the "term and reversion" method.

This approach estimates the value of the Subject Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar retail/ wholesale developments in the locality.

We understand from the Manager that Levels 7 and 8 (originally occupied as warehouse and office) of the Subject Property will be converted into retail use commencing from May 2006.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available, we have analysed lettings from a variety of buildings in the locality.

In our assessment, the term yield adopted is 8% and reversionary yield is 9.5%. The term yield adopted is lower than the market yield derived below because the current passing rental income of the Subject Property is lower than the estimated current market rental income.

The term yield is used for capitalisation of the current passing rental income as at the dates of valuation whilst the reversionary yield is used to convert reversionary rental income. This approach is generally used in valuing income producing properties.

4. VALUATION (Continued)

4.1 Income Capitalisation Approach (Continued)

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property.

4.2 Discounted Cash Flow Analysis

For the Subject Property, the terminal capitalisation rate within our calculation is 9%. This is based on our analysis of the term yields applicable in the marketplace with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow prepared by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

We have estimated the rental income growth per annum during next 10 years for the Subject Property. Rental income growth patterns for each tenancy reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, we will follow the terms of the renewed tenancies which are typically of four or five years. Upon expiry of such tenancies new leases will be granted or renewed on three years terms at the then existing market rentals.

As advised by the Manager, no immediate capital expenditure will be incurred as the Subject Property is maintained in a reasonable condition commensurate with its age. According to the Manager, no large scale repair and maintenance from 2006 to 2015 is considered necessary. No deduction has been made for the expected repair and maintenance costs as we understand from the Manager that the repair and maintenance costs, for maintaining the current condition of the Subject Property, are covered by the management fee paid by tenants.

As advised by the Manager, Levels 7 and 8 (originally occupied as warehouse and office) of the Subject Property will be converted into retail use commencing from May 2006.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, property management fees (for existing tenancies but not for new tenancies or projected rental income commencing from January 2006) and service fees.

4. VALUATION (Continued)

4.2 Discounted Cash Flow Analysis (Continued)

In our assessment, we have valued the Subject Property using the following assumptions:

Items	Percent
Terminal Capitalisation Rate	9%
Discount Rate	11%
Growth Rate - Year 1	2%
Growth Rate - Year 2	2%
Growth Rate - Year 3	2%
Growth Rate - Year 4	7%
Growth Rate - Year 5	7%
Growth Rate - Years 6 to 10	5%
Vacancy Loss	1%
Bad Debts	0.5%

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

Projected Outgoings Items	Projected Outgoings
Service Fees based on the tenancy	3.0% of gross rental income services agreement
Cost of Large Scale Repair and Maintenance as advised by the Manager	None
Sundry Expenses	0.5% of rental income
Insurance	Fixed Amount
Business Tax	5.0% of rental income
Flood Prevention Fee	0.09% of rental income
Urban Real Estate Tax	original value of building x 70% x 1.2%
Stamp Duty	0.1% of gross rental income

5. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

Valuation Method	**Value** *(HK$)*
Income Capitalisation	2,541,000,000
Discounted Cash Flow	2,607,000,000

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property in its existing state as at the Date of Valuation was HONG KONG DOLLARS TWO THOUSAND FIVE HUNDRED AND SEVENTY-FOUR MILLION ONLY (HK$2,574,000,000) assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of values derived using by the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Valuation of various units of the Subject Property (the "Subject Property") held by GZI REIT located in Fortune Plaza, Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, Guangdong Province, the PRC.

1. SUMMARY OF THE SUBJECT PROPERTY

According to the information provided by the Manager, 83 Building Ownership Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Moon King Limited
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	The zoning of the underlying land of Fortune Plaza was described as "commercial/office".
4.	Interest Valued	:	Leasehold interest of the Subject Property.
5.	Property Description	:	The Subject Property comprises a portion of a 6-storey commercial podium and two office towers erected above it.
6.	Gross Floor Area ("GFA") of the Subject Property	:	Total - 40,356.2 sq.m. Office - 36,503.1 sq.m. Retail - 3,853.1 sq.m.
7.	Lease Term	:	Levels 1-5, Level 37 of East Tower and Level 27 of West Tower - 40 years from 26 November, 2002 Levels 8-9, 11-14, 19, 25-28, 34-36 of East Tower and Levels 8-19, 24-26 of West Tower - 50 years from 26 November, 2002
8.	Usage	:	Levels 1-5, Level 37 of East Tower and Level 27 of West Tower - Commercial Levels 8-9, 11-14, 19, 25-28, 34-36 of East Tower and Levels 8-19, 24-26 of West Tower - Office
9.	Internal Floor Area of the Subject Property	:	30,752.3 sq.m.
10.	Gross Rentable Area of the Subject Property	:	40,356.2 sq.m.
11.	Construction Completion Date of Fortune Plaza	:	2003
12.	Market Value in existing state as at the Date of Valuation	:	HK$554,800,000
13.	Net Passing Income as at the Date of Valuation	:	RMB44,562,876 per annum

1. SUMMARY OF THE SUBJECT PROPERTY (Continued)

14. Estimated Market Rental Income as at the Date of Valuation	:	RMB56,748,700 per annum
15. Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
16. Term Yield	:	Office: 7.0% Retail: 9.5%
17. Reversionary Yield	:	Office: 9.0% Retail: 11.5%
18. Occupancy Rate as at the Date of Valuation	:	90.2%
19. Vacancy Allowance	:	Office: 5% Retail: 1%

2. THE SUBJECT PROPERTY

2.1 Situation and Locality

Fortune Plaza is located at Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, Guangdong Province, the PRC. It is close to the Guangzhou East Train Station and metro station.

Tian He District is a rapidly developing area and is the present focus of new Grade A office development. Located on the eastern side of Guangzhou, the majority of major developments in the area are situated around and overlook the Tian He stadium. This district has emerged as the new CBD of Guangzhou within the last few years and its increasing popularity with the business community has led to rapid development of commercial buildings around the stadium area initially and later has gradually expanded outwards from this central square.

2. THE SUBJECT PROPERTY (Continued)

2.2 Surrounding Development and Environmental Issues

The Subject Property is located in Tian He District. Developments in the area comprise mainly modern high-rise commercial buildings and low-rise retail shopping centres, interspersed with older medium-rise residential buildings.

The pedestrian traffic flow along that section of Ti Yu Dong Road is heavy as it is located at the busier side of the Tian He stadium.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding to the previous development erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

2.3 Availability of and Access to Public Transport

General accessibility of Fortune Plaza is considered good as public transportation such as taxis and buses are available along Ti Yu Dong Road. Bus stops and metro station are located adjacent to Fortune Plaza.

Fortune Plaza is located in approximately 5 minutes driving distance from the Guangzhou East Train Station.

2.4 Car Accessibility and Road Frontage

Fortune Plaza is directly accessible from Ti Yu Dong Road. A pedestrian subway adjacent to the Subject Property allows access to Guangzhou Tian He Stadium.

2.5 Description of the Development

Fortune Plaza, a Grade A commercial complex, is located at Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, in Guangzhou's prime business area. According to the information provided by the Manager, the development has a total gross floor area of 80,419.1 sq.m.

The area breakdown of Fortune Plaza is summarized as below:

Level	**Usage**	**Gross Floor Area** *(sq.m.)*
Basement	Carpark and Machinery Plant Room	8,561.6
Podium: Level 1 to 6 – Commercial	Podium: Levels 1 to 6 – Commercial	23,993.0
Level 7	Level 7 - Machinery Plant Room	
East Tower	Level 8-36 – Office	28,900.3
	Level 37 - Commercial	
West Tower	Level 8-26 – Office	18,964.2
	Level 27-28 - Commercial	
	Total:	80,419.1

2. THE SUBJECT PROPERTY (Continued)

2.5 Description of the Development (Continued)

The site of the building comprises a regular and level plot having its main frontage onto Ti Yu Dong Road upon which a 6-storey commercial podium with two office towers has been erected and was completed in 2003. The East Tower is above the podium from the 8th to 37th storey and the West Tower from the 8th to 28th storey.

The main entrance of Fortune Plaza is onto Ti Yu Dong Road. General accessibility of Fortune Plaza is considered good as public transportation such as metro system, buses and taxis are available along Ti Yu Dong Road.

Car parking facilities are provided within 2 basement levels while a platform garden, a club and other ancillary facilities are located on Level 7.

The layout and design of Fortune Plaza is reasonable in comparison with the other office buildings in the locality.

2.6 Portion of Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

No.	Property	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
Podium, Ti Yu Dong Road				
1.	No. 118, Unit 109	Commercial	1,007.4	968.9
2.	No. 118, Level 2	Commercial	2,845.7	2,275.8
3.	No. 118, Level 3	Commercial	4,275.1	3,593.0
4.	No. 118, Level 4	Commercial	4,275.1	3,593.0
5.	No. 118, Level 5	Commercial	4,275.1	3,593.0
East Tower, Ti Yu Dong Road				
6.	No. 116, Unit 801	Office	180.2	115.0
7.	No. 116, Unit 802	Office	124.7	79.5
8.	No. 116, Unit 803	Office	188.8	120.5
9.	No. 116, Unit 805	Office	191.7	122.3
10.	No. 116, Unit 806	Office	124.8	79.6
11.	No. 116, Unit 808	Office	188.8	120.5
12.	No. 116, Unit 903	Office	188.8	120.5
13.	No. 116, Unit 905	Office	191.7	122.3
14.	No. 116, Unit 906	Office	124.8	79.6
15.	No. 116, Unit 908	Office	188.8	120.5
16.	No. 116, Unit 1101	Office	180.2	115.0
17.	No. 116, Unit 1102	Office	124.7	79.6
18.	No. 116, Unit 1108	Office	188.8	120.5

2. THE SUBJECT PROPERTY (Continued)

2.6 Portion of Interest Held by GZI REIT (Continued)

No.	Property	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
19.	No. 116, Unit 1201	Office	179.7	115.2
20.	No. 116, Unit 1202	Office	125.0	80.2
21.	No. 116, Unit 1203	Office	188.7	121.0
22.	No. 116, Unit 1205	Office	191.7	122.9
23.	No. 116, Unit 1206	Office	125.1	80.2
24.	No. 116, Unit 1208	Office	188.7	121.0
25.	No. 116, Unit 1301	Office	179.7	115.2
26.	No. 116, Unit 1302	Office	125.0	80.2
27.	No. 116, Unit 1303	Office	188.7	121.0
28.	No. 116, Unit 1305	Office	191.7	122.9
29.	No. 116, Unit 1306	Office	125.1	80.2
30.	No. 116, Unit 1308	Office	188.7	121.0
31.	No. 116, Unit 1401	Office	179.7	115.2
32.	No. 116, Unit 1402	Office	125.0	80.2
33.	No. 116, Unit 1403	Office	188.7	121.0
34.	No. 116, Unit 1405	Office	191.7	122.9
35.	No. 116, Unit 1406	Office	125.1	80.2
36.	No. 116, Unit 1408	Office	188.7	121.0
37.	No. 116, Unit 1901	Office	180.2	115.0
38.	No. 116, Unit 1902	Office	124.7	79.5
39.	No. 116, Unit 1903	Office	188.8	120.5
40.	No. 116, Unit 1905	Office	191.7	122.3
41.	No. 116, Unit 1906	Office	124.8	79.6
42.	No. 116, Unit 1908	Office	188.8	120.5
43.	No. 116, Units 2501 & 2601	Office	1,586.4	1,240.8
44.	No. 116, Unit 2705	Office	188.7	121.8
45.	No. 116, Unit 2801	Office	180.3	115.4
46.	No. 116, Unit 3401	Office	180.4	115.0
47.	No. 116, Units 3501 & 3601	Office	1,392.2	1,029.3
48.	No. 116, Level 37	Commercial	302.2	181.0

2. THE SUBJECT PROPERTY (Continued)

2.6 Portion of Interest Held by GZI REIT (Continued)

No.	Property	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
	West Tower, Ti Yu Dong Road			
49.	No. 114, Level 8	Office	997.7	779.6
50.	No. 114, Level 9	Office	997.7	779.6
51.	No. 114, Level 10	Office	997.7	779.6
52.	No. 114, Unit 1101	Office	189.3	120.5
53.	No. 114, Unit 1102	Office	125.0	79.5
54.	No. 114, Unit 1103	Office	179.7	114.4
55.	No. 114, Unit 1105	Office	189.3	120.5
56.	No. 114, Unit 1106	Office	125.0	79.6
57.	No. 114, Unit 1108	Office	189.3	120.5
58.	No. 114, Unit 1201	Office	189.0	122.0
59.	No. 114, Unit 1202	Office	125.7	81.1
60.	No. 114, Unit 1203	Office	179.4	115.8
61.	No. 114, Unit 1205	Office	189.0	122.0
62.	No. 114, Unit 1206	Office	125.7	81.1
63.	No. 114, Unit 1208	Office	189.0	122.0
64.	No. 114, Unit 1301	Office	189.0	122.0
65.	No. 114, Unit 1302	Office	125.7	81.1
66.	No. 114, Unit 1303	Office	179.4	115.8
67.	No. 114, Unit 1305	Office	189.0	122.0
68.	No. 114, Unit 1306	Office	125.7	81.1
69.	No. 114, Unit 1308	Office	189.0	122.0
70.	No. 114, Unit 1401	Office	189.0	122.0
71.	No. 114, Unit 1402	Office	125.7	81.1
72.	No. 114, Unit 1403	Office	179.4	115.8
73.	No. 114, Level 15	Office	997.7	779.6
74.	No. 114, Level 16	Office	997.7	779.6
75.	No. 114, Level 17	Office	997.7	779.6
76.	No. 114, Level 18	Office	997.7	779.6
77.	No. 114, Unit 1902	Office	125.9	81.6
78.	No. 114, Unit 1903	Office	179.3	116.2
79.	No. 114, Unit 1905	Office	188.8	122.4
80.	No. 114, Unit 1906	Office	125.9	81.6
81.	No. 114, Units 2401 & 2501	Office	1,591.4	1,243.6
82.	No. 114, Level 26	Office	646.8	446.0
83.	No. 114, Level 27	Commercial	335.8	180.4
		Total:	40,356.2	30,752.3

2. THE SUBJECT PROPERTY (Continued)

2.7 Specification, Services and Finishes of the Development

Fortune Plaza is constructed of reinforced concrete with glazed tiling to the exterior elevations and is decorated with marble or granite wall and floor tiles at the main lobby. The specification of the building includes central air-conditioning system. Main services comprising electricity, water and telecommunications are connected to the building.

The building is subdivided into various Units on all levels and is served by 8 passenger lifts and 2 cargo lifts serving all levels.

The standard of services and finishes within the development is considered to be reasonable commensurate to other office buildings in the neighbourhood.

The building is maintained in a reasonable condition commensurate to its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system and fire extinguishers throughout the building.

2.8 Current Rental Income

As at the Date of Valuation, about 9.8% of the Subject Property was vacant.

According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

Gross Floor Area *(sq.m.)*	**Monthly Net Rental Income** *(RMB)*	**Annual Net Rental Income** *(RMB)*
36,401.3	3,713,573	44,562,876

According to the supplied information, we understand that rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone, air-conditioning charges and etc.

The Subject Property comprises various tenants from various industries such as banking/finance, property agency, information technology, manufacturing/ engineering, transportation, shipping and etc.

2. THE SUBJECT PROPERTY (Continued)

2.9 Occupancy Rate

According to the information provided by the manager, the majority portion of the Subject Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of about 90.2% of the Subject Property held by GZI REIT. Existing tenants include HSBC Bank, and Alibaba (China) Technology Co., Ltd.

2.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies are on normal local commercial terms.

The details of the lease term duration are shown as follows:

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Area** *(%)*
0	1	0.3
1	2	22.0
2	3	57.6
3	4	5.6
4	5	4.7
Vacant		9.8
Total		100.0

The details of the lease expiry profile are shown as follows:

% of tenancies due to expire in each year	**By Area** *(%)*
2006	9.8
2007	41.2
2008	36.1
2009	6.0
2010 and beyond	6.9
Total	100.0

2. THE SUBJECT PROPERTY (Continued)

2.11 Summary of Material Rent Review Provisions

As advised by the Manager, there are no sub-leases or tenancies in the Subject Property except for the lease of Level 15 of West Tower. We consider that this sub-lease does not affect the value of the Subject Property.

We are not aware of any material options or rights of pre-emption which may affect the value of the Subject Property. We have considered the right to renew in our valuation.

2.12 Historic Outgoings

As advised by the Manager, the property management income covers all the total property management expenses.

2.13 Property Management

2.13.1 Tenancy Services Agreement

A tenancy services agreement was entered into between the Manager, Moon King Limited (the "Property Company") and Guangzhou Yicheng Property Management Ltd. (the "Leasing Agent") on 7 December, 2005 for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of Fortune Plaza) will be paid a remuneration of 4% per annum of the gross revenue ("Service Fees") receivable by the Property Company from the operation of the Subject Property.The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of Fortune Plaza, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Subject Property under the property management agreement.

2.13.2 Property Management Fee

As advised by the Manager, the monthly property management fee is in line with the market level of similar developments in the locality.

3. VALUATION

3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Subject Property into a value through the process of capitalization. The most common method of converting net income into value is by the "term and reversion" method.

This approach estimates the values of the Subject Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar prime office and retail developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed transactions from a variety of similar type of buildings in the locality.

In our assessment, the term yields adopted are 9.5% for the retail component and 7.0% for the office component. The term yields adopted are lower than the market yields derived below because the current passing rental income of the Subject Property is lower than the estimated current market rental income. The reversionary yields adopted are 11.5% for the retail component and 9.0% for the office component. We have applied individual yields to theretail and office components of the Subject Property, with a higher yield for the retail component to reflect the perceived higher levels of risk associated with the retail property market which is less mature and more volatile compared to the office market in Guangzhou.

The term yield is used for capitalisation of the current passing rental income as at the Date of Valuation whilst the reversionary yield is used to convert reversionary rental income. This approach is generally used in valuing income producing properties.

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property.

3.2 Discounted Cash Flow Analysis

For the Subject Property, the terminal capitalisation rate for office portion within our calculation is 7.5% and the terminal capitalisation rate for retail portion is 9.5%. This is based on our analysis of the term yields applicable in the marketplace with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow provided by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

3. VALUATION (Continued)

3.2 Discounted Cash Flow Analysis (Continued)

We have estimated the rental income growth per annum during next 10 years for the Subject Property. Rental income growth patterns for each tenancy reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, typically new or existing two to five years leases will be granted or renewed on the basis of three years leases and the then prevailing market rentals.

As advised by the Manager, no immediate capital expenditure will be incurred as the Subject Property is maintained in a reasonable condition commensurate with its age. We have adopted the forecast of the cost for large scale repair and maintenance from 2006 to 2015 provided by the Manager. No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that the small scale, routine repair and maintenance costs, for maintaining the current condition of the Subject Property, are covered by the management fee paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, cost for large scale repair and maintenance, and service fees.

In our assessment, we have valued the Subject Property using the following assumptions:

Property	Office Portion	Retail Portion
Terminal Capitalisation Rate	7.5%	9.5%
Discount Rate	11%	11%
Growth Rate - Year 1	8%	10%
Growth Rate - Year 2	2%	12%
Growth Rate - Year 3	0%	16%
Growth Rate - Year 4	0%	10%
Growth Rate - Year 5	2%	10%
Growth Rate - Years 6 to 10	6%	5%
Vacancy Loss	5%	1%
Bad Debts	1%	1%

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

3. VALUATION (Continued)

3.2 Discounted Cash Flow Analysis (Continued)

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

Projected Outgoings Items	**Projected Outgoings**
Service Fees based on the tenancy services agreement	4% of gross rental income
Cost for Large Scale Repair & Maintenance as advised by the Manager	Nil in 2006 RMB75,300 in 2007 RMB256,000 in 2008 RMB366,400 in 2009 RMB85,300 in 2010 RMB125,500 in 2011 RMB145,600 in 2012 RMB145,600 in 2013 RMB376,400 in 2014 RMB291,000 in 2015
Sundry Expenses	0.2% of rental income
Insurance	Fixed Amount
Business Tax	5.0% of rental income
Flood Prevention Fee	0.09% of rental income
Urban Real Estate Tax	original value of building x 70% x 1.2%
Stamp Duty	0.1% of gross rental income

4. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

Valuation Method	**Value** *(HK$)*
Income Capitalisation	582,000,000
Discounted Cash Flow	527,600,000

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property in its existing state as at the Date of Valuation was HONG KONG DOLLARS FIVE HUNDRED AND FIFTY-FOUR MILLION AND EIGHT HUNDRED THOUSAND ONLY (HK$554,800,000) assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of the values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Part C - City Development Plaza

Valuation of various units of the property (the "Subject Property") held by GZI REIT located in City Development Plaza, Nos. 185, 187 and 189 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong Province, the PRC.

1 SUMMARY OF THE SUBJECT PROPERTY

According to the information provided by the Manager, 165 Building Ownership Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Full Estates Investment Limited
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	The zoning of the underlying land of City Development Plaza was described as "commercial/residential".
4.	Interest Valued	:	Leasehold interest of the Subject Property
5.	Property Description	:	The Subject Property forms a portion of a 28-storey Grade A commercial building.
6.	Gross Floor Area ("GFA") of the Subject Property	:	Total: 42,397.4 sq.m. Office: 30,639.8 sq.m. Retail: 11,757.6 sq.m.
7.	Lease Term	:	Levels 1-3 - 40 years from 27 January, 1997 Levels 6-11, 16-28-50 years from 27 January, 1997
8.	Usage	:	Levels 1-3 - Commercial Levels 6-11,16-28 - Office
9.	Internal Floor Area of the Subject Property	:	32,654.9 sq.m.
10.	Gross Rentable Area of the Subject Property	:	42,397.4 sq.m.
11.	Construction Completion Date of City Development Plaza	:	1997
12.	Market Value in existing state as at the Date of Valuation	:	HK$392,000,000
13.	Net Passing Income as at the Date of Valuation	:	RMB41,183,601 per annum
14.	Estimated Market Rental Income as at the Date of Valuation	:	RMB45,207,768 per annum

1 SUMMARY OF THE SUBJECT PROPERTY (Continued)

15. Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
16. Term Yield	:	Office: 8.5% Retail: 11.0%
17. Reversionary Yield	:	Office: 9.5% Retail: 12.0%
18. Occupancy Rate as at the Date of Valuation	:	92.6%
19. Vacancy Allowance	:	Office: 4% Retail: 2%

2 THE SUBJECT PROPERTY

2.1 Situation and Locality

City Development Plaza is situated on the western side of Ti Yu Xi Road in Tian He District, Guangzhou, Guangdong Province, the PRC. Ti Yu Xi Road forms one axis of the square surrounding the Tian He Stadium and has become one of the main CBDs in Guangzhou.

Tian He District is a rapidly developing area and is the present focus of new Grade A office development. Located on the eastern side of Guangzhou, the majority of major developments in the area are situated around and overlook the Tian He stadium. This district has emerged as the new CBD of Guangzhou within the last few years and its increasing popularity with the business community has led to rapid development of commercial buildings around the stadium area initially and later has gradually expanded outwards from this central square.

2.2 Surrounding Development and Environmental Issues

The Subject Property is located in Tian He District. Developments in the area comprise mainly modern high-rise commercial buildings and low-rise retail shopping centres, interspersed with older medium-rise residential buildings.

The pedestrian traffic flow along that section of Ti Yu Xi Road is moderate as it is located at the less busier side of the Tian He stadium.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding to the previous development erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

2 THE SUBJECT PROPERTY (Continued)

2.3 Availability of and Access to Public Transport

General accessibility of City Development Plaza is considered good as public transportation such as taxis and buses are available along Ti Yu Xi Road. Bus stops are located at 2 minutes walk from City Development Plaza.

City Development Plaza is located at an approximately 10 minutes walk from Ti Yu Xi Station on No. 1 metro line.

2.4 Car Accessibility and Road Frontage

City Development Plaza is directly accessible from Ti Yu Xi Road.

2.5 Description of the Development

City Development Plaza, a 28-storey Grade A commercial building plus a 2-storey basement carpark, is located at Nos. 185, 187 and 189 Ti Yu Xi Road, Tian He District, in Guangzhou's prime business area. The building comprises a 5-storey commercial podium and office floors from Levels 6 to 28. According to the information provided by the Manager, the development has a total gross floor area of 74,049.2 sq.m.

The area breakdown of City Development Plaza is summarized as below:

Level	**Usage**	**Gross Floor Area** *(sq.m.)*
Basement 1 and 2	Carpark, Machinery Room	12,500.6
Level 1-3	Commercial	11,757.5
Level 4	Restaurant	4,639.3
Level 5	Club House	1,724.5
Level 6-28	Office	43,427.3
	Total:	74,049.2

The commercial portion is situated behind the main entrance lobby serving the office levels, and is divided into separate retail units arranged around an atrium. The ground level of the atrium is used for exhibition purposes.

The site of the building comprises a regular and level plot having its main frontage onto Ti Yu Xi Road on which a 5-storey commercial portion with an office tower (rising from the 6th to 28th storey) has been built. The building was completed in 1997.

The building facilities include an exclusive clubhouse, restaurants, a conference centre and car parking spaces.

The layout and design of the Subject Property is square in shape.

2 THE SUBJECT PROPERTY (Continued)

2.6 Portion of Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

Floor	Usage	Gross Floor Area *(sq.m.)*	Remarks
Portion of Level 1	Commercial	1,580.2	Including management office
Portion of Level 1	Commercial	1,707.4	This portion is the atrium of Level 1 which is a not retail unit and not for permanent lease.
The whole of Level 2	Commercial	3,977.0	
The whole of Level 3	Commercial	4,493.0	
Portion of Level 6	Office	1,487.3	
Portion of Level 7	Office	818.1	
Portion of Level 8	Office	922.2	
Portion of Level 9	Office	795.7	
Portion of Level 10	Office	1,383.3	
The whole of Level 11	Office	1,844.3	
The whole of Level 16	Office	1,844.3	
Portion of Level 17	Office	1,717.9	
The whole of Levels 18 and 19	Office	3,688.7	1,844.34 sq.m. for each level
Portion of Level 20	Office	1,613.8	
Portion of Level 21	Office	1,613.8	
The whole of Levels 22 to 28	Office	12,910.4	1,844.34 sq.m. for each level
	Total:	42,397.4	

2 THE SUBJECT PROPERTY (Continued)

2.7 Specification, Services and Finishes of the Development

City Development Plaza is constructed of reinforced concrete and is decorated with marble or granite wall and floor tiles at the main lobby and with gypsum false ceiling. The specification of the building includes central air-conditioning system. Main services comprising electricity, water and telecommunications are provided to the building.

The office portion is generally decorated with carpet floor or homogenous floor tile, wallpaper and false ceiling.

The retail podium is served by 2 passenger lifts, 4 pairs of escalators and 4 staircases. The office lifts serve all floors.

The office portion is served by 6 passenger lifts, 2 service lifts and 2 staircases.

The building is maintained in a reasonable condition commensurate to its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system and fire extinguishers throughout the building.

2.8 Current Rental Income

As at the Date of Valuation, about 7.4% of the Subject Property was vacant.

According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

Gross Floor Area *(sq.m.)*	**Monthly Net Rental Income** *(RMB)*	**Annual Net Rental Income** *(RMB)*
39,260.0	3,431,966	41,183,601

According to the supplied information, we understand that rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone, air-conditioning charges and etc.

The Subject Property is occupied by various tenants from various industries such as finance/insurance, property, information technology, telecommunications, manufacturing/ engineering, shipping, etc.

2.9 Occupancy Rate

According to the information provided by the manager, the majority portion of the Subject Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of about 92.6% of the Subject Property held by GZI REIT. The Subject Property is occupied by various tenants such as Guangzhou Wisdom Valley Development Co. Ltd., Cosco Guangzhou International Freight Co. Ltd., Taikang Life Insurance Co. Ltd., Shenzhen Development Bank, AXA-Minmetals Assurance Co. Ltd. Guangzhou Branch and Guangdong Mobile Communication Co., Ltd..

2 THE SUBJECT PROPERTY (Continued)

2.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies are on normal local commercial terms.

The details of the lease term duration are shown as follows:

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Area** *(%)*
0	1	18.9
1	2	11.0
2	3	33.7
3	4	9.6
4	5	1.8
5	6	17.6
Vacant		7.4
		100.0

The details of the lease expiry profile are shown as follows:

% of tenancies due to expire in each year	**By Area** *(%)*
2006	37.4
2007	25.4
2008	15.4
2009	0.0
2010 and beyond	21.8
Total	100.0

2.11 Summary of Material Rent Review Provisions

As advised by the Manager, there are no sub-leases or tenancies in the Subject Property except for the leases of Units 202 and 301. We consider that this sub-lease does not affect the value of the Subject Property.

We are not aware of any material options or rights of pre-emption which may affect the value of the Subject Property. We have considered the right to renew in our valuation.

2 THE SUBJECT PROPERTY (Continued)

2.12 Historic Outgoings

As advised by the Manager, the property management income covers the total property management expenses.

2.13 Property Management

2.13.1 Tenancy Services Agreement

A tenancy services agreement was entered into between the Manager, Full Estates Investment Limited (the "Property Company") and Guangzhou Yicheng Property Management Co., Ltd. (the "Leasing Agent") on 7 December, 2005 for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of City Development Plaza) will be paid a remuneration of 4% per annum of the gross revenue ("Service Fees") receivable by the Leasing Agent from the operation of the Subject Property. The Leasing Agent agrees that, for so long as it is the property manager of City Development Plaza, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Subject Property under the property management agreement.

2.13.2 Property Management Fee

As advised by the Manager, the monthly management fee is at the market level of similar developments in the locality.

3 VALUATION

3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Subject Property into a value through the process of capitalization. The most common method of converting net income into value is by the "term and reversion" method.

This approach estimates the value of the Subject Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar prime office and retail developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality.

In our assessment, the term yields adopted are 11% for the retail component and 8.5% for the office component. The term yields adopted are lower than the market yields derived below because the current passing rental income of the Subject Property is lower than the estimated current market rental income. The reversionary yields adopted are 12% for the retail component and 9.5% for the office component. We have applied individual yields to the retail and office components of the Subject Property, with a higher yield for the retail components to reflect the perceived higher levels of risk associated with the retail property market which is less mature and more volatile compared to the office market in Guangzhou.

3 VALUATION (Continued)

3.1 Income Capitalisation Approach (Continued)

The term yield is used for capitalisation of the current passing rental income as at the Date of Valuation whilst the reversionary yield is used to convert reversionary rental income. This approach is generally used in valuing income producing properties.

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property.

3.2 Discounted Cash Flow Analysis

For the Subject Property, the terminal capitalisation rate for office portion within our calculation is 8% and the terminal capitalisation rate for retail portion is 10%. This is based on our analysis of the term yields applicable in the marketplace as with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow prepared by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

We have estimated that the rental income growth per annum during next 10 years for the Subject Property. Rental income growth patterns for each tenancies reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, typically new or existing two to five years leases will be granted or renewed on the basis of three years leases at the then prevailing market rentals.

As advised by the Manager, no immediate capital expenditure will be incurred as the Subject Property is maintained in a reasonable condition commensurate with its age. We have adopted the forecast of the cost for large scale repair and maintenance from 2006 to 2015 provided by the Manager. No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that the small scale, routine repair and maintenance costs, for maintaining the current condition of the Subject Property, are covered by the management fee paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, cost for large scale repair and maintenance, and service fees.

3 VALUATION (Continued)

3.2 Discounted Cash Flow Analysis (Continued)

In our assessment, we have valued the Subject Property using the following assumptions:

Property	Office Portion	Retail Portion
Terminal Capitalisation Rate	8%	10%
Discount Rate	11%	11%
Growth Rate - Year 1	5%	5%
Growth Rate - Year 2	-2%	6%
Growth Rate - Year 3	-4.5%	8%
Growth Rate - Year 4	-4.5%	5.5%
Growth Rate - Year 5	-2%	5.5%
Growth Rate - Years 6 to 10	6%	5%
Vacancy Loss	4%	2%
Bad Debts	1%	1%

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

Projected Outgoings Items	Projected Outgoings
Service Fees based on the tenancy services agreement	4% of gross rental income Cost for
Large Scale Repair & Maintenance as advised by the Manager	RMB349,500 in 2006
	RMB250,800 in 2007
	RMB1,065,900 in 2008
	RMB461,700 in 2009
	RMB666,900 in 2010
	RMB148,200 in 2011
	RMB399,000 in 2012
	RMB159,600 in 2013
	RMB79,800 in 2014
	RMB210,900 in 2015
Sundry Expenses	0.2% of net rental income
Insurance	Fixed Amount
Business Tax	5.0% of of rental income
Flood Prevention Fee	0.09%rental income
Urban Real Estate Tax	Original cost of property x 70% x 1.2%
Stamp Duty	0.1% of gross rental income

4 VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

Valuation Method	**Value** *(HK$)*
Income Capitalisation	412,000,000
Discounted Cash Flow	372,000,000

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property in its existing state as at the Date of Valuation was HONG KONG DOLLARS THREE HUNDRED NINTY-TWO MILLION ONLY (HK$392,000,000) assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Part D - Victory Plaza

Valuation of various units of the property (the "Subject Property") held by GZI REIT located in Victory Plaza, No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong Province, the PRC.

1. SUMMARY OF THE SUBJECT PROPERTY

According to the information provided by the Manager, 9 Building Ownership Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Keen Ocean Limited
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	According to the State-owned Land Use Rights Grant Contract dated 27 January, 1997, the zoning of the underlying land of Victory Plaza was described as "commercial/tourism".
4.	Interest Valued	:	Leasehold interest of the Subject Property.
5.	Property Description	:	The Subject Property comprises a portion of a 6-storey retail shopping centre with 1 basement level.
6.	Gross Floor Area ("GFA") of the Subject Property	:	27,698.1 sq.m.
7.	Lease Term	:	Basement Level 1 - 40 years from 8 March, 2004 Unit 101 - 40 years from 8 March, 2004 Unit 102 - 40 years from 8 March, 2004 Level 1（架空層） - 40 years from 8 March, 2004 Level 2 - 40 years from 8 March, 2004 Level 3 - 40 years from 8 March, 2004 Level 4 - 40 years from 8 March, 2004 Level 5 - 40 years from 8 March, 2004 Level 6 - 40 years from 8 March, 2004
8.	Usage	:	Basement Level 1 - Non-residential/Commercial Unit 101 - Non-residential Unit 102 - Non-residential Level 1（架空層） - Non-residential Level 2 - Non-residential Level 3 - Non-residential Level 4 - Non-residential Level 5 - Non-residential Level 6 - Non-residential
9.	Internal Floor Area of the Subject Property	:	22,847.9 sq.m.

1. SUMMARY OF THE SUBJECT PROPERTY (Continued)

10.	Gross Rentable Area of the Subject Property	:	27,262.3 sq.m.
11.	Construction Completion Date of Victory Plaza	:	2003
12.	Market Value in existing state as at the Date of Valuation	:	HK$533,000,000
13.	Net Passing Income as at the Date of Valuation	:	RMB31,263,786 per annum
14.	Estimated Market Rental Income as at the Date of Valuation	:	RMB61,529,964 per annum
15.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
16.	Term Yield	:	8.5%
17.	Reversionary Yield	:	10.5%
18.	Occupancy Rate as at the Date of valuation	:	100%
19.	Vacancy Allowance	:	1%

2. THE SUBJECT PROPERTY

2.1 Situation and Locality

Victory Plaza, a 6-storey commercial retail centre with 4 basement levels, is located at No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong Province, the PRC. Victory Plaza features a 6-storey glass atrium over its entrance and a paved pedestrian mall in front of the building. As at the time of inspection, there are two office towers being constructed on top of the retail centre. As advised by the Manager, the two office towers with 52 and 36 storeys high will be completed in 2007.

Victory Plaza is located at the junction of Tian He Road and Ti Yu Xi Road. It is next to Guangzhou Book Centre and within close proximity of Teem Plaza. Ti Yu Xi Road forms one axis of the square surrounding the Tian He Stadium and has become one of the main CBDs in Guangzhou.

2.2 Surrounding Development and Environmental Issues

The Subject Property is located in Tian He District. Developments in the area comprise mainly modern high-rise commercial buildings and low-rise retail shopping centres, interspersed with older medium-rise residential buildings.

The pedestrian traffic flow along that section of Ti Yu Xi Road is moderate as it is located at the less busier side of the Tian He stadium.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding to the previous development erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

2.3 Availability of and Access to Public Transport

General accessibility of Victory Plaza is considered good as public transportation such as taxis and buses are available along Ti Yu Xi Road. Bus stops are located at 2 minutes walk from Victory Plaza.

Victory Plaza is located at an approximately 10 minutes walk from Ti Yu Xi Road Station on No. 1 metro line. The No. 3 metro line is currently under construction and the first section is scheduled to be completed by the end of 2005. The No. 1 and No. 3 metro lines are planned to build a direct underground access to the basement level 1 of Victory Plaza, which will enhance the accessibility of Victory Plaza upon its completion.

2.4 Car Accessibility and Road Frontage

Victory Plaza, situated at the junction of Tian He Road and Ti Yu Xi Road, is directly accessible from Ti Yu Xi Road.

2. THE SUBJECT PROPERTY (Continued)

2.5 Description of the Development

Victory Plaza, a 6-storey commercial and retail centre and 4 levels of basement, is located at No. 101 Ti Yu Xi Road, Tian He District, in Guangzhou's prime business area. According to the information provided by the Manager, the development has a total gross floor area of 52,568.6 sq.m.

The area breakdown of Victory Plaza is summarised as below:

Level	**Usage**	**Gross Floor Area** *(sq.m.)*
Basement 1 to 4	Car park	24,870.5
Basement 1	Commercial	1,809.2
Level 1	Commercial (includes 架空層)	3,033.5
Level 2	Commercial	3,968.9
Level 3	Commercial	4,756.7
Level 4	Commercial	4,756.7
Level 5	Commercial	4,769.9
Level 6	Commercial	4,603.2
	Total:	52,568.6

Upon our site inspection, there were two office towers being constructed on top of the retail centre. As advised by the Manager, the two office towers with 52 and 36 storeys high are scheduled to be completed in 2007. The two office towers are East and West Towers with an estimated floor area of 58,823.0 sq.m. and 30,772.0 sq.m. respectively upon completion.

The site area of Victory Plaza is approximately 10,477.0 sq.m. The site of the shopping centre comprises a regular and level plot having its main frontage onto Ti Yu Xi Road on which a 6-storey commercial retail centre with 4 basement levels has been erected and was completed in 2003.

The main entrance of Victory Plaza is onto Ti Yu Xi Road. General accessibility of Victory Plaza is considered good as public transportation such as buses and taxis are available along Ti Yu Xi Road.

The layout and design of Victory Plaza is reasonable in comparison with the other shopping centres in the locality.

2. THE SUBJECT PROPERTY (Continued)

2.6 Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

Level	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
Part of Basement 1	Commercial	1,809.2	1,503.6
Level 1 (101)	Commercial	473.7	442.3
Level 1 (102)	Commercial	1,553.5	1,451.0
Level 1	Commercial（架空層）	1,006.3	978.2
Level 2	Commercial	3,968.9	3,058.1
Level 3	Commercial	4,756.7	3,833.0
Level 4	Commercial	4,756.7	3,833.0
Level 5	Commercial	4,769.9	3,875.8
Level 6	Commercial	4,603.2	3,872.9
	Total:	27,698.1	22,847.9

2.7 Specification, Services and Finishes of the Development

Victory Plaza is constructed of reinforced concrete structures. The common parts from Levels 1 to 4 are finished with granite homogenous floor and wall tiles and on Levels 5 to 6 with granite floor tiles and plastic or painted and wallpapered walls. Main services comprising electricity, water and telecommunications are provided to the building.

The building is subdivided into various units on all levels and is served by 4 passenger lifts, 2 pairs of escalators serving the basement to Level 4 and by 6 staircases.

The standard of services and finishes within the development is considered to be reasonable, commensurately to other shopping centres in the neighbourhood.

The building is maintained in a reasonable condition commensurate to its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system and fire extinguishers throughout the building.

2. THE SUBJECT PROPERTY (Continued)

2.8 Current Rental Income

As at the Date of Valuation, the Subject Property was fully leased. According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

Gross Floor Area *(sq.m.)*	Monthly Net Rental Income *(RMB)*	Annual Net Rental Income *(RMB)*
27,698.1	2,605,315	31,263,786

According to the supplied information, we understand that rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone, air-conditioning charges and etc.

The Subject Property is occupied by various tenants from various industries such as food & beverages, electricity, banking/financing, retail, etc.

2.9 Occupancy Rate

According to the information provided by the manager, the Subject Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of 100% of the Subject Property held by GZI REIT. The Subject Property is occupied by various tenants such as Guangzhou Xin Da Xin Company , Guangzhou Qiao Mei Fa Zhan Company Limited, Guangzhou Laoxiang Diet Co. Ltd., Yum! Restaurants (Guangdong) Co., Ltd. and China Merchants Bank Guangzhou Branch.

2. THE SUBJECT PROPERTY (Continued)

2.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies are on normal local commercial terms.

The details of the lease term duration are shown as follows:

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Area** *(%)*
1	2	27.7
2	3	1.5
3	4	3.0
4	5	18.3
5	6	5.8
6	7	6.5
7	8	0.0
8	9	5.7
9	10	0.0
10	11	31.5
		100.0

The details of the lease expiry profile are shown as follows:

% of tenancies due to expire in each year	**By Area** *(%)*
2006	2.8
2007	0.7
2008	4.2
2009	2.0
2010 and beyond	90.3
Total	100.0

2.11 Summary of Material Rent Review Provisions

As advised by the Manager, there are no sub-leases or tenancies in the Subject Property.

We are not aware of any material options or rights of pre-emption which may affect the value of the Subject Property. We have considered the right to renew in our valuation.

2. THE SUBJECT PROPERTY (Continued)

2.12 Historic Outgoings

As advised by the Manager, the total property management income covers the total property management expenses.

We are of the opinion that the current property management fee is in line with the market level of similar developments in the locality.

2.13 Property Management

2.13.1 Tenancy Services Agreement

A tenancy services agreement was entered into between between the Manager, Keen Ocean Limited (the "Property Company") and Guangzhou Yicheng Property Management Co., Ltd. (the "Leasing Agent") on 7 December, 2005, for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of Victory Plaza) will be paid a remuneration of 4% per annum of the gross revenue ("Service Fees") receivable by the Property Company from the operation of the Subject Property. The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of Victory Plaza, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Subject Property under the property management agreement.

2.13.2 Property Management Fee

As advised by the Manager, the monthly management fee is at the market level of similar developments in the locality.

3. VALUATION

3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Subject Property into a value through the process of capitalization. The most common method of converting net income into value is by the "term and reversion" method.

This approach estimates the value of the Subject Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar prime retail developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality.

3. VALUATION (Continued)

3.1 Income Capitalisation Approach (Continued)

In our assessment, the term yield and reversionary yield adopted are 8.5% and 10.5% respectively. The term yield adopted is lower than the market yield derived below because the current passing rental income of the Subject Property is lower than the estimated current market rental income. The term yield is used for capitalisation of the current passing rental income as at the dates of valuation whilst the reversionary yield is used to convert reversionary rental income. This approach is generally used in valuing income producing properties.

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property.

3.2 Discounted Cash Flow Analysis

For the Subject Property, the terminal capitalisation rate adopted within our calculation is 9%. This is based on our analysis of the term yields applicable in the marketplace with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow provided by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

We have estimated that the rental income growth per annum during next 10 years for the Subject Property. Rental income growth patterns for each tenancy reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, typically new or existing three to ten leases will be granted or renewed on the basis of three years leases and the then existing market rentals.

As advised by the Manager, no immediate capital expenditure will be incurred as the Subject Property is maintained in a reasonable condition commensurate with its age. We have adopted the forecast of the cost for large scale repair and maintenance from 2006 to 2015 provide by the Manager. No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that the small scale, routine repair and maintenance costs, for maintaining the current condition of the Subject Property, are covered by the management fee paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, cost for large scale repair and maintenance, and service fees.

3. VALUATION (Continued)

3.2 Discounted Cash Flow Analysis (Continued)

In our assessment, we have valued the Subject Property using the following assumptions:

Items	Percent
Terminal Capitalisation Rate	9%
Discount Rate	11%
Growth Rate - Year 1	5%
Growth Rate - Year 2	6%
Growth Rate - Year 3	8%
Growth Rate - Year 4	10%
Growth Rate - Year 5	10%
Growth Rate - Years 6 to 10	6%
Vacancy Loss	1%
Bad Debts	1%

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

Projected Outgoings Items	Projected Outgoings
Service Fees based on the tenancy services agreement	4% of gross rental income
Cost for Large Scale Repair and Maintenance as advised by the Manager	RMB410,000 in 2006
	RMB1,040,000 in 2007
	RMB427,600 in 2008
	RMB410,000 in 2009
	RMB380,000 in 2010
	RMB230,000 in 2011
	RMB820,000 in 2012
	RMB181,000 in 2013
	RMB598,000 in 2014
	RMB1,221,900 in 2015
Sundry Expenses	0.2% of rental income
Insurance	Fixed Amount
Business Tax	5.0% of rental income
Flood Prevention Fee	0.09% of rental income
Urban Real Estate Tax	original cost of property x 70% x 1.2%
Stamp Duty	0.1% of gross rental income

4. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

Valuation Method	Value *(HK$)*
Income Capitalisation	475,000,000
Discounted Cash Flow	591,000,000

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property in its existing state as at the Date of Valuation was HONG KONG DOLLARS FIVE HUNDRED AND THIRTY-THREE MILLION ONLY (HK$533,000,000) assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of values derived using by the Income Capitalisation Approach and Discounted Cash Flow Analysis.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE UNITHOLDERS OF
GZI REAL ESTATE INVESTMENT TRUST
(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))

We have audited the financial statements of GZI Real Estate Investment Trust ("GZI REIT") on pages 108 to 139 which have been prepared in accordance with Hong Kong Financial Reporting Standards, the relevant provisions of the Trust Deed dated 7 December, 2005, the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trust established by the Securities and Futures Commission of Hong Kong (the "Code"), and the disclosure requirements of Hong Kong Companies Ordinance.

RESPECTIVE RESPONSIBILITIES OF THE MANAGER AND THE AUDITORS

The Manager of GZI REIT is responsible for the preparation of financial statements in accordance with the relevant provisions of the Trust Deed dated 7 December, 2005, which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. In addition, the Code requires the financial statements of GZI REIT to contain the relevant disclosures set out in Appendix C of the Code.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards of Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of GZI REIT and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements of GZI REIT give a true and fair view of the disposition of the assets and liabilities of GZI REIT and of the Group as at 31 December, 2005 and of the Group's results and cash flows for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed dated 7 December, 2005, the relevant disclosure requirements set out in Appendix C of the Code, and the disclosure requirements of Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 April, 2006

Consolidated Balance Sheet

As at 31 December, 2005

	Note	HK$'000
Non-current assets		
Property, plant and equipment	5	**3,395**
Investments properties	6	**4,053,800**
Deferred assets	8	**5,637**
Goodwill	9	**152,917**
		4,215,749
Current assets		
Rental receivables	10	**320**
Prepayments, deposits and other receivables	10	**4,478**
Cash and cash equivalents	11	**235,917**
Due from related companies	24	**9,810**
		250,525
Total assets		**4,466,274**
Current liabilities		
Rental deposits, current portion	13	**6,138**
Receipts in advance	13	**21,842**
Accruals and other payables	13	**10,580**
Due to related companies	24	**81,658**
		120,218
Non-current liabilities, other than amount attributable to Unitholders		
Rental deposits, non-current portion	13	**63,695**
Bank borrowings, secured	15	**1,255,216**
Derivative financial instruments	14	**11,231**
		1,330,142
Total liabilities, other than amount attributable to Unitholders		**1,450,360**
Net assets attributable to Unitholders		**3,015,914**
Units in issue ('000)		**1,000,000**
Net asset value per Unit (HK$)		**3.016**

On behalf of the Board of Directors of
GZI REIT Asset Management Limited
as the manager of GZI Real Estate Investment Trust

Liang Ningguang
Director

Liu Yongjie
Director

Balance Sheet

As at 31 December, 2005

	Note	HK$'000
Non-current assets		
Investment in a subsidiary	7	**2,986,652**
Net assets		**2,986,652**

On behalf of the Board of Directors of
GZI REIT Asset Management Limited
as the manager of GZI Real Estate Investment Trust

Liang Ningguang
Director

Liu Yongjie
Director

Consolidated Income Statement

For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005

	Note	HK$'000
Turnover – rental income		**6,835**
Operating expenses	16	**(5,981)**
Operating profit		**854**
Interest income from bank deposits		**41,209**
Finance costs	18	**(1,520)**
Profit before tax and transactions with Unitholders		**40,543**
Income tax expenses	19	**—**
Profit after tax before transactions with Unitholders		**40,543**
Transactions with Unitholders:		
— Distributions to Unitholders (Note i)		**(40,543)**
— Increase in fair value of Units (Note ii)		**(463,348)**
	20	**(463,348)**

Notes:

(i) The Trust Deed dated 7 December, 2005 (the "Trust Deed") requires GZI REIT to distribute to Unitholders an amount not less than 90% of Total Distributable Income of each financial period/year subject to adjustments allowed under Code on Real Estate Investment Trusts ("the REIT Code") and the Trust Deed. Total finance costs arising from transactions with Unitholders, including amounts to be paid to Unitholders, therefore amounted to HK$40,543,000.

(ii) GZI REIT has designated its Units as financial liabilities at fair value through profit or loss. The increase in value arising from the fluctuation of market capitalisation of the Units in the period has therefore been presented as a deduction from profit after tax before transactions with Unitholders.

(iii) Earnings per Unit information is not presented on the face of the income statement as the Units that are publicly traded are considered to be financial liabilities in accordance with HKAS 32. Earnings per Unit based upon profit after tax before transactions with Unitholders, is presented in note 21.

Distribution Statement

For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005

	HK$'000
Profit after tax before transactions with Unitholders	40,543
Adjustments for the Total Distributable Income	—
Total Distributable Income	40,543
Distribution per Unit (HK$) (Note)	N/A

Note:

Pursuant to the terms of Trust Deed, GZI REIT's first distribution after 21 December, 2005 (being the GZI REIT's Listing Date (the "Listing Date")) will be for the period from 21 December, 2005 to 30 June, 2006. Accordingly, distribution for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005 will be distributed together with the distribution for the first half of 2006 and will be paid to persons who are Unitholders of GZI REIT as at the record date for the interim distributions for the period from 1 January, 2006 to 30 June, 2006.

Performance Table

As at 31 December, 2005

Total net assets value	HK$3,015,914,000
Net asset value per Unit	HK$3.016
The highest premium of the traded price to net asset value(Note i)	HK$0.759
Net yield per Unit(Note ii)	1.18%
Number of Units in issue	1,000,000,000 Units

Note:

(i) The highest premium is calculated based on the highest traded price of HK$3.775 on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") during the Relevant Period from 21 December, 2005 (being the Listing Date) to 31 December, 2005 (the "Relevant Period"). The lowest traded price during the Relevant Period was HK$3.450 which is higher than the net asset value as at 31 December, 2005 (subscription price of the Units was HK$3.075 as at 21 December, 2005), accordingly, no discount of the traded price to net asset value is presented.

(ii) Net yield per Unit is calculated based on profit after tax before transactions with Unitholders per Unit for the period from 7 December, 2005 to 31 December, 2005 over the traded price of HK$3.450 as at 31 December, 2005.

Statement of Recognised Income and Expense

For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005

	HK$'000
Result for the period	**(463,348)**
Other items of income or expense recognised outside Income Statement	
— Fair value losses on cash flow hedges	**(11,281)**
Total recognised income and expense for the period	**(474,629)**

	Amount attributable to Unitholders (excluding hedging reserve)	**Hedging reserve**	**Net assets attributable to Unitholders**
	HK$'000	HK$'000	HK$'000
Proceeds from issuance of Units[Note i]	1,704,377	—	1,704,377
Issuance of Units for acquisition of subsidiaries[Note ii]	1,282,275	—	1,282,275
Fair value adjustments[Note iii]	—	—	—
Amount to be distributed to Unitholders	40,543	—	40,543
Change in fair value of cash flow hedges	—	(11,281)	(11,281)
Balance at 31 December, 2005	3,027,195	(11,281)	3,015,914

Notes:

(i) The Group issued 583,000,000 Units on 21 December, 2005 at HK$3.075 per Unit to the public. The related issuance costs and listing expenses amounting to HK$88,348,000 have been netted off with the proceeds.

(ii) The Group issued 417,000,000 Units on 7 December, 2005 (41.7% of the then total Units issued after this issue) to Guangzhou Construction & Development Co. Ltd., a subsidiary of Guangzhou Investment Company Limited ("GZI") ("as part of the purchase consideration for 100% share capital of Partat Investment Limited ("Partat"), Moon King Limited ("Moon King"), Full Estates Investment Limited ("Full Estates") and Keen Ocean Limited ("Keen Ocean"). The fair value of the Units issued at the date of completion of the acquisition amounted to HK$1,282,275,000 (HK$3.075 per Unit) (Note 23).

(iii) The increase in fair value arising from the fluctuation of market capitalisation of Units during the Relevant Period represents an increase in financial liabilities atributable to Unitholders, which is then reduced by the transactions with Unitholders recorded as a deduction from profit after tax in the income statement. Accordingly, fair value adjustments presented as a deduction from profit after tax before transactions with Unitholders have no net impact on the net assets attributable to Unitholders.

Consolidated Cash Flow Statement

For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005

	Note	HK$'000
Cash flows from operating activities		
Net cash inflow generated from operations	22	68,984
Interest paid		(2,300)
Net cash inflow from operating activities		66,684
Cash flows from investing activities		
Interest received		41,209
Acquisition of subsidiaries, net of cash acquired	23	(2,832,299)
Net cash outflow from investing activities		(2,791,090)
Cash flows from financing activities		
Proceeds from issuance of 583,000,000 Units of GZI REIT, net of issuance costs		1,704,377
Proceeds from borrowings, net of transaction costs		1,255,946
Net cash inflow from financing activities		2,960,323
Increase in cash and cash equivalents, representing cash and cash equivalents at period end date		235,917

1 BASIS OF PREPARATION

GZI Real Estate Investment Trust ("GZI REIT") and its subsidiaries (collectively referred to as the "Group") mainly engaged in the leasing of commercial properties in the People's Republic of China ("the PRC").

GZI REIT is a Hong Kong collective investment scheme constituted as a Unit trust by the Trust Deed entered into between GZI REIT Asset Management Limited, as the Manager of GZI REIT (the "Manager"), and HSBC Institutional Trust Services (Asia) Limited, as the Trustee of GZI REIT (the "Trustee") on 7 December, 2005 and authorised under section 104 of the Securities and Futures Ordinance subject to the applicable conditions imposed by Securities and Futures Commission ("SFC") from time to time. The address of its registered office is 24th Floor, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

GZI REIT was listed on the Hong Kong Stock Exchange on 21 December, 2005.

These financial statements are presented in thousands of Units of HK dollars (HK$'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors of the Manager on 18 April, 2006.

The financial statements of GZI REIT have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss and the Units issued to Unitholders, which are carried at fair value.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January, 2006 or later periods but which the Group have not early adopted, are as follows:

- **HKAS 19 (Amendment), Employee Benefits (effective from 1 January, 2006).** This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not have defined benefits scheme, HKAS 19 (Amendment) is not relevant to the Group's operations.

- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January, 2006).** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group do not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December, 2005.

- **HKAS 39 (Amendment), The Fair Value Option (effective from 1 January, 2006).** This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Manager believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January, 2006.

1 BASIS OF PREPARATION (Continued)

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

- **HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January, 2006).** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Manager considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- **HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January, 2006).** These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- **HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January, 2006).** HKFRS 6 is not relevant to the Group's operations.

- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January, 2007).** HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Manager assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January, 2007.

- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January, 2006).** HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Manager is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January, 2006).** HKFRS-Int 5 is not relevant to the Group's operations.

- **HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1 December, 2005).** HK(IFRIC)-Int 6 is not relevant to the Group's operations.

- **HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March, 2006).** HK(IFRIC)-Int 7 is not relevant to the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

(a) Basis of consolidation

Subsidiaries are those entities in which GZI REIT, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. Where GZI REIT, directly or indirectly, otherwise controls an entity, including special purpose entities as described in HKAS – Int 12, by way of having the power to govern its financial and operating policies so that GZI REIT obtains benefits from these activities, such controlled entities are not included in the consolidated financial statements except by way of note disclosure to show the effect on the consolidated financial statements had such controlled entities been included.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In GZI REIT's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by GZI REIT on the basis of dividends received and receivable.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group is mainly engaged in leasing of commercial properties in China, accordingly, there is one business and geographical segment for the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi, the functional currency of the Group, at exchange rates prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated to Renminbi, at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

Hong Kong dollars are used as the presentational currency of the consolidated financial statements for the convenience of the financial statement readers. For the purpose of translating the consolidated financial statements from Renminbi to Hong Kong dollars, all assets and liabilities of the Group are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and all income and expense items at the average applicable rates during the period. All resulting exchange differences are dealt with as movements of reserves.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Machinery and tools	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(e) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment properties (Continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested for impairment and are revised for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivatives as hedges of a particular risk associated with a recognised asset or liability as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) - net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other gains/(losses) - net'.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the rental receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Rental deposits

Rental deposits are financial liabilities with fixed or determinable repayments. They arise when the Group enters into lease agreement directly with tenants. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current liabilities.

Rental deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. At initial recognition, the difference between the carrying amount of the financial liability and the actual consideration received are treated as initial premiums and recognised as rental income over the lease term, on a straight-line basis.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Revenue recognition

Revenue comprises the fair value for the consideration received or receivable for rental income in the ordinary course of the Group's activities. Revenue is recognised as follows:

(i) Operating lease rental income is recognised on a straight-line basis over lease period of the lease. When the Group provides incentives to its tenants, the cost of incentives will be recognised over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and operating lease rental recognised over the lease term is recognised as deferred assets.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

(p) Formation expenses

Formation expenses are recognised in the income statement as incurred.

(q) Distributions to Unitholders

In accordance with the Trust Deed, GZI REIT is required to distribute to Unitholders not less than 90% of the Group's profit for each financial period/year subject to adjustments allowed under the REIT Code and the Trust Deed. The Units are therefore classified as financial liabilities in accordance with HKAS 32 and, accordingly, the distributions paid to Unitholders represent finance costs and are therefore presented as expenses in the income statement. Consequently, GZI REIT has recognised distributions as finance costs in the income statement.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: price risk, foreign exchange risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Price risk

The Group is exposed to property price and market rental risk because investment properties are carried at fair value. Any change in fair values is recognised in the income statement.

(ii) Foreign exchange risk

The Group operates in China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars as certain of the general and administrative expenses are settled in Hong Kong dollars.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the China government.

The Group entered into a Facility Agreement in connection with a loan facility denominated in US dollars with a maturity period of three years. To manage the foreign currency risk arising from this foreign currency borrowing, the Group entered into a US dollars/Renminbi non-deliverable swap facility to hedge its foreign exchange risk arising from the borrowings.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of rental receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Manager is of the opinion that credit risk of rental receivables are fully covered by the rental deposits from corresponding tenants.

Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(iv) Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group managed its cash flow interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deferred assets, rental receivables, prepayments, deposits and other receivables and financial liabilities including receipts in advance, accruals and other payables and amounts due to related companies approximate their fair values due to their short maturities.

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the directors of the Manager determine the amount within a range of reasonable fair value estimates. In making its judgement, the directors of the Manager consider information from a variety of sources including:

a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The directors of the Manager use assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the directors of the Manager and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

4 CRITICAL ACCOUNTING ESTIMATES (Continued)

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

5 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Machinery and tools HK$'000
For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005	
Opening net book amount	—
Acquisition of subsidiaries (Note 23)	**3,415**
Depreciation	**(20)**
Closing net book amount	**3,395**
At 31 December, 2005	
Cost	**3,415**
Accumulated depreciation	**(20)**
Net book amount	**3,395**

6 INVESTMENT PROPERTIES - GROUP

	HK$'000
Beginning of the period	—
Acquisition of subsidiaries (Note 23)	**4,053,800**
End of the period	**4,053,800**

The investment properties were located in China held on land use rights of 40 years to 50 years, expiring in 2047 through 2055.

The investment properties were revalued at 31 December, 2005 by Colliers International (Hong Kong) Limited, independent professional qualified valuers. Valuations were performed using discounted cash flow projections based on estimates of future cash flows, derived from the terms of any existing lease and other contracts, and from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

6 INVESTMENT PROPERTIES - GROUP (Continued)

In the consolidated income statement, direct operating expenses include HK$54,000 relating to investment properties that were vacant.

As at 31 December, 2005, all investment properties were pledged as collateral for the Group's bank borrowings (Note 15).

7 INVESTMENT IN SUBSIDIARIES

	31 December, 2005 HK$'000
Investments, at cost:	
Unlisted shares	**2,986,652**

The following is a list of the principal subsidiaries at 31 December, 2005:

Name	**Place of establishment and kind of legal entity**	**Principal activities and place of operations**	**Particulars of issued share capital**	**Interest held** (Note)
GZI REIT (Holding) 2005 Company Limited ("HoldCo")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Partat Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%
Moon King Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%
Full Estates Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%
Keen Ocean Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%

Note: Share of HoldCo is held directly by GZI REIT. Shares of all the other subsidiaries are held indirectly by GZI REIT.

8 DEFERRED ASSETS - GROUP

Rental income is recognised on an accrual basis by averaging out the impact of rent-free periods, contracted rental escalations and such other terms affecting the monthly cash received from rental income under each tenancy agreement. Thus, monthly rental income is recognised on a straight-line basis for the entire lease term of each tenancy agreement, which effectively amortises the impact of rent-free periods, contracted rental escalations and other relevant terms on the rental income over the relevant lease periods. The temporary difference between the monthly rental income as set out in the lease agreements and accounting monthly rental income is reflected as deferred assets.

9 GOODWILL - GROUP

	HK$'000
For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005	
Opening net book amount	—
Acquisition of subsidiaries (Note 23)	**152,917**
Closing net book amount	**152,917**
At 31 December, 2005	
Cost	**152,917**
Accumulated amortisation and impairment	—
Net book amount	**152,917**

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units identified according to the business segment. Upon acquisition of subsidiaries, all goodwill was allocated to the Group's only business segment, the leasing operation.

For the purpose of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a one-year period. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget.

Key assumptions used for in the cash flow projections are as follows:

Discount rate	5.85%

These assumptions have been used for the analysis of the cash-generating unit. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the cash-generating unit. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

10 RENTAL RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES - GROUP

	HK$'000
Rental receivables	**320**
Less: provision for impairment of receivables	—
Rental receivables – net	**320**
Prepayments, deposits and other receivables	**4,478**
	4,798

10 RENTAL RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES - GROUP (Continued)

The carrying amounts of rental receivables, prepayments, deposits and other receivables approximate their fair value.

The majority of the Group's rental income is received in cash and there is no specific credit terms given to the tenants. The rental receivables are generally fully covered by the rental deposits from corresponding tenants.

	HK$'000
0 – 30 days	**268**
31 – 120 days	**52**
	320

There is no concentration of credit risk with respect to rental receivables, as the Group has a large number of tenants in Guangzhou, Guangdong Province, the PRC.

There is no impairment loss for rental receivables during the period from 7 December, 2005 to 31 December, 2005.

11 CASH AND CASH EQUIVALENTS - GROUP

As at 31 December, 2005, included in the cash and cash equivalents of the Group are bank deposits of approximately HK$110,927,000 denominated in Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The remittance of these funds out of the China is subject to exchange control restrictions imposed by the Chinese government.

12 HEDGING RESERVE - GROUP

	HK$'000
For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005	
Opening net book amount	—
Cash flow hedges:	
— Fair value losses	**11,231**
— Transfer to net profit (Note 18)	**50**
Closing net book amount	**11,281**

13 RENTAL DEPOSITS, RECEIPTS IN ADVANCE AND ACCRUALS AND OTHER PAYABLES - GROUP

	HK$'000
Rental deposits, current portion	6,138
Receipts in advance	21,842
Provision for withholding tax payable	3,060
Provision for business tax and flood prevention fee	564
Accruals for operating expenses	6,956
Accruals and other payables	10,580
	38,560

The carrying amounts of rental deposits, receipts in advance, accruals and other payables approximate their fair value.

Non-current rental deposits of the Group were HK$63,695,000 as at 31 December, 2005.

14 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

	HK$'000
Interest rate and currency swaps – cash flow hedges	11,231

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Interest rate and currency swaps

Gains and losses in equity on the swaps as of 31 December, 2005 will be released to the income statement at various dates between three months to three years from the balance sheet date.

The notional principal amounts of the outstanding interest rate and currency swap contracts at 31 December, 2005 were US$165,000,000.

At 31 December, 2005, the fixed interest rate for the bank borrowings varied from 3.18% to 3.28% and the floating rates were LIBOR plus 1.35%. The contract reference exchange rate for the bank borrowings is Renminbi 8.07847 per one US dollar and the spot rate was the exchange rate announced by the State Administration of Foreign Exchange in China.

Gains and losses recognised in the hedging reserve in equity (Note 12) on interest rate and currency swap contracts as of 31 December, 2005 will be continuously released to the income statement until the repayment of the secured bank borrowings (Note 15).

15 BANK BORROWINGS, SECURED - GROUP

	HK$'000
Non-current	
Bank borrowings	**1,255,216**

On 7 December, 2005 (date of establishment of GZI REIT), the subsidiaries of GZI REIT and the lending banks (the "Lending Banks") entered into a Facility Agreement in connection with a loan facility of US$165,000,000 (equivalent to approximately HK$1,280,000,000) (the "Loan") with a maturity period of three years for the financing of the acquisition of the share capital of Partat, Moon King, Full Estates and Keen Ocean from subsidiaries of GZI. The Loan was fully drawn down by the Group on 21 December, 2005. The subsidiaries of GZI REIT also entered into an interest rate and US$/RMB currency non-deliverable swap facility with the Lending Banks on 21 December, 2005. Pursuant to this swap arrangement, the interest rate under the above loan facility is fixed at 3.18% to 3.28% per annum for the entire three year tenure of the loan under the facility and the exchange rate will be fixed at Renminbi 8.07847 per one US dollar for repayment of interest and principal of the borrowings.

Bank borrowings are guaranteed on a joint and several basis by Holdco and Trustee and also secured by the following:

— investment properties of HK$4,053,800,000 (Note 6)

— assignment of rental income and all other proceeds arising from each of the investment properties and of all tenancy agreements relating to each of the investment properties

— equity interests of Partat, Moon King, Full Estates and Keen Ocean, subsidiaries of the GZI REIT

The maturity of borrowings at the balance sheet date is as follows:

	HK$'000
Between 2 and 5 years	**1,255,216**

The effective interest rate of the bank borrowings at the balance sheet date was 5.89%.

The carrying amounts of the borrowings approximate their fair value.

The Group has no undrawn borrowing facilities as at 31 December, 2005.

16 EXPENSES BY NATURE

Operating expenses include the following:

	HK$'000
Property management fee(Note i)	**241**
Urban real estate tax	**288**
Business tax and flood prevention fee	**348**
Withholding tax(Note ii)	**649**
Depreciation expenses of property, plant and equipment	**20**
Asset management fee	**573**
Trustee's remuneration	**40**
Trustee's inception fee	**120**
Valuation fee	**200**
Legal and professional fee	**1,130**
Auditors' remuneration	**1,300**
Bank charges	**—**

Notes:

(i) The Group received leasing, marketing and tenancy management services from two leasing agents, namely, Guangzhou Yicheng Property Management Ltd. and White Horse Property Management Co. Ltd (Note 24).

(ii) Withholding tax on the rental income and interest income in China is calculated based on the rental income (net of business tax paid) and interest income at a rate of 10 per cent.

17 EMPLOYEE BENEFIT EXPENSE

GZI REIT did not appoint any directors and the Group did not engage any employees during the period. As such, it has not incurred any employee benefit expense.

18 FINANCE COSTS

	HK$'000
Interest expense:	
— bank borrowings wholly repayable within five years (Note 15)	**2,555**
Net foreign exchange transaction gains	**(985)**
Fair value losses on financial instruments:	
— Interest rate and currency swaps: cash flow hedge, transfer from reserve (Note 12)	**(50)**
	1,520

19 INCOME TAX EXPENSES

No China enterprise income tax has been provided as the Group has no assessable profit in China.

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong.

There is no material unprovided deferred taxation as at 31 December, 2005.

20 RESULT FOR THE PERIOD

The consolidated result attributable to Unitholders of GZI REIT is dealt with in the financial statements of GZI REIT to the extent of loss of approximately HK$463,348,000.

21 EARNINGS PER UNIT BASED UPON PROFIT AFTER TAX BEFORE TRANSACTIONS WITH UNITHOLDERS

Earnings per Unit based upon profit after tax before transactions with Unitholders for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005 is HK4 cents. The calculation of earnings per Unit based upon profit after tax before transactions with Unitholders is based on profit after tax before transactions with Unitholders of HK$40,543,000 and on 1,000,000,000 Units in issue during the period.

Diluted earnings per Unit is not presented as there is no dilutive instruments throughout the period from 7 December, 2005 to 31 December, 2005.

22 NOTES TO THE CASH FLOW STATEMENT

Net cash inflow generated from operations

	HK$'000
Profit before taxation and transactions with Unitholders	**40,543**
Depreciation expenses	**20**
Interest income	**(41,209)**
Finance costs	**1,520**
Increase in deferred assets	**(480)**
Decrease in rental receivables	**2,201**
Increase in prepayments, deposits and other receivables	**(1,483)**
Increase in rental deposits	**3,121**
Increase in receipts in advance	**10,369**
Increase in accruals and other payables	**7,207**
Net increase in amounts with related companies	**47,175**
Net cash inflow generated from operations	**68,984**

23 BUSINESS COMBINATION

On 7 December, 2005 (date of establishment of GZI REIT), HoldCo acquired 100% of the share capital of Partat, Moon King, Full Estates and Keen Ocean (collectively referred to as the "SPVs") from subsidiaries of GZI.

According to the Reorganisation Deed dated 7 December, 2005, any change in the net asset value of the SPVs from 7 December, 2005 (date of acquisition of the SPVs) to 20 December, 2005 shall be for the account of GCCD. Accordingly, the Group consolidated the results of the SPVs from 21 December, 2005 to 31 December, 2005 in these consolidated financial statements.

The acquired business contributed rental income of HK$6,835,000 and net profit of HK$3,517,000 to the Group for the period from 21 December, 2005 (the Listing Date) to 31 December, 2005.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
— Cash paid	**2,933,623**
— Fair value of Units issued (Note i)	**1,282,275**
— Current account with GCCD, a related company	**23,940**
Total purchase consideration	**4,239,838**
Fair value of net assets acquired – shown as below	**(4,086,921)**
Goodwill (Note 9) (Note ii)	**152,917**

Notes:

(i) The fair value of the Units issued was based on the published Unit price on 21 December, 2005. The Manager considers that the fair value of the Units issued on the date of completion of the acquisition approximate the fair value of the Units issued on 21 December, 2005.

(ii) The goodwill is attributable to the prospects of the properties in real estate market in Guangzhou.

23 BUSINESS COMBINATION (Continued)

The fair value and the acquiree's carrying amount of assets and liabilities arising from the acquisition are as follows:

Fair value and acquiree's carrying amount

	HK$'000
Property, plant and equipment (Note 5)	3,415
Investment properties (Note 6) (Note)	4,053,800
Deferred assets (Note 8)	5,157
Rental receivables (Note 10)	2,521
Prepayments, deposits and other receivables (Note 10)	2,995
Cash and cash equivalents (Note 11)	101,324
Rental deposits (Note 13)	(66,712)
Receipts in advance (Note 13)	(11,473)
Accruals and other payables (Note 13)	(3,373)
Due to related companies (Note 24)	(733)
Net assets acquired	4,086,921
Purchase consideration settled in cash	2,933,623
Cash and cash equivalents in subsidiary acquired	(101,324)
Cash outflow on acquisition	(2,832,299)

Note:

The investment properties were revalued at 31 December, 2005 by Colliers International (Hong Kong) Limited, independent professional qualified valuers. The fair value of the investment properties approximates the acquiree's carrying amount.

24 SIGNIFICANT RELATED-PARTY TRANSACTIONS AND BALANCES

As at 31 December, 2005, the Group was significantly influenced by GZI (incorporated in Hong Kong), which owns approximately 40% of GZI REIT's Units. The remaining 60% of the Units are widely held.

The table set forth below summarized the names of significant parties and nature of relationship with GZI REIT as at 31 December, 2005:

Significant related party	Relationship with GZI REIT
Guangzhou Investment Company Limited ("GZI")	A major Unitholder
Guangzhou Construction & Development Holdings (China) Limited ("GCD Holding")	A subsidiary of GZI
Guangzhou City Construction & Development Ltd. ("GCCD")	A subsidiary of GZI
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV")	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd. ("Yicheng")	A subsidiary of GZI
White Horse Property Management Co. Ltd	A subsidiary of GZI
Guangzhou City Construction & Development Xingye Property Agent Ltd.	A subsidiary of GZI
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	The ultimate holding company of GZI
GZI REIT Asset Management Limited (the "Manager")	A subsidiary of GZI
Asset Manager – RPT	

The following transactions and balances were carried out with related parties:

(a) Transactions with related parties

	HK$'000
Management fee paid to Yicheng	**(143)**
Management fee paid to White Horse Property Management Co. Ltd	**(98)**
Rental income received from Guangzhou City Construction & Development Xingye Property Agent Ltd.	**52**
Rental income received from GZI	**33**
Rental income received from Yue Xiu	**1**
Rental income received from Yicheng	**—**

Note:

All related party transactions were carried out in accordance with the terms of the relevant agreements governing the transactions.

Details of the transactions with the Manager have been disclosed in Note 25.

24 SIGNIFICANT RELATED-PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances with related parties

	HK$'000
Balance with GZI	
Amount due to GZI	**(1,606)**
Balance with GCD Holding	
Amount due to GCD Holding	**(78,941)**
Balance with GCCD	
Amount due to GCCD	**(871)**
Balance with White Horse JV	
Amount due from White Horse JV	**9,810**
Balance with Yicheng	
Amount due to Yicheng	**(142)**
Balance with White Horse Property Management Co. Ltd.	
Amount due from White Horse Property Management Co. Ltd.	**(98)**

Note:

All balances with related parties are unsecured, interest-free and repayable on demand.

(c) Key management compensation

There was no key management compensation for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005.

25 CONNECTED-PARTY TRANSACTIONS

The table set forth below summarized the names of the connected parties, as defined in the REIT Code, and nature of relationship with GZI REIT as at 31 December, 2005:

Connected party	**Relationship with GZI REIT**
Guangzhou Investment Company Limited ("GZI") (Note)	A major Unitholder
Guangzhou Construction & Development Holdings (China) Limited ("GCD Holding") (Note)	A subsidiary of GZI
Guangzhou City Construction & Development Ltd. ("GCCD") (Note)	A subsidiary of GZI
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV") (Note)	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd. ("Yicheng") (Note)	A subsidiary of GZI
White Horse Property Management Co. Ltd (Note)	A subsidiary of GZI
Guangzhou City Construction & Development Xingye Property Agent Ltd. (Note)	A subsidiary of GZI
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") (Note)	The ultimate holding company of GZI
GZI REIT Asset Management Limited (the "Manager") (Note)	The management company of GZI REIT and a subsidiary of GZI
HSBC Institutional Trust Services (Asia) Limited (the "Trustee")	The trustee of GZI REIT
Colliers International (Hong Kong) Limited (the "Valuer")	The principal valuer of GZI REIT
The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (the "HSBC Group")	Related parties of the Trustee

Note:

These connected parties are also considered as the related parties of GZI REIT, transactions and balances carried out with these parties are disclosed in Note 24.

25 CONNECTED-PARTY TRANSACTIONS (Continued)

The following transactions were carried out with connected parties:

	HK$'000
Asset management fee paid to the Manager (Note ii)	**(573)**
Trustee fee paid to the Trustee	**(160)**
Valuation fee paid to the Valuer	**(200)**
Transactions with the HSBC Group	
Interest expense paid to the HSBC Group (Note iii)	**(491)**
Upfront arrangement fees on the borrowings paid to the HSBC Group	**(7,567)**
Rental income received from the HSBC Group	**242**
Interest income from the HSBC Group	**76**

Notes:

(i) All connected party transactions were carried out in accordance with the terms of the relevant agreements governing the transactions.

(ii) The asset management fee is calculated as the aggregate of a base fee of 0.3% per annum of the value of the Deposited Property, as defined in the Trust Deed and a service fee of 3% per annum of Net Property Income, as defined in the Trust Deed.

(iii) The Group also entered into an interest rate and US$/RMB currency non-deliverable swap facility with the HSBC Group on 21 December, 2005. Details of the swap arrangement are disclosed in Note 15.

26 FUTURE MINIMUM RENTAL RECEIVABLE - GROUP

At 31 December, 2005, the Group had future minimum rental receivable under non-cancellable leases as follows:

	HK$'000
Not later than one year	**340,390**
Later than one year and not later than five years	**1,057,492**
Later than five years	**37,963**
	1,435,845

There were no future minimum rental receivables for GZI REIT.

Corporate and Investor Relations Information

BOARD OF DIRECTORS OF THE MANAGER

Executive directors

Mr Liang Ningguang *(Chairman)*
Mr Liu Yongjie

Non-executive director

Mr Liang Youpan

Independent non-executive directors & audit committee members

Mr Chan Chi On, Derek
Mr Lee Kwan Hung, Eddie
Mr Chan Chi Fai, Brian

Responsible Officers of the Manager

Mr Liang Ningguang
Mr Liu Yongjie
Mr Lau Jin Tin Don

COMPANY SECRETARY OF THE MANAGER

Mr Yu Tat Fung

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

AUDITORS OF GZI REIT

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL VALUER

Colliers International (Hong Kong) Ltd.

HONG KONG LEGAL ADVISOR

Baker & McKenzie

PRINCIPAL BANKERS OF GZI REIT

Citigroup N. A., Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank Ltd.

WEBSITES TO ACCESS INFORMATION IN RELATION TO GZI REIT

http://www.gzireit.com.hk
http://www.hkex.com.hk

REGISTERED OFFICE OF THE MANAGER

24th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai, Hong Kong

UNIT REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East, Wanchai Hong Kong

UNIT LISTING

GZI REIT's Units are listed on:
The Stock Exchange of Hong Kong Limited

The stock code is: 405

INVESTOR RELATIONS

For further information about
GZI REIT, please contact:
Mr Shiu Siu Tao, Alex
Telephone: (852) 2828 3692
Facsimile: (852) 2519 6473
Email: alex@gzireit.com.hk