GZI Real Estate Investment Trust
越秀房地產投資信託基金

(Stock Code: 405)

2006

Annual Report

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))

(Stock Code: 405)

YEAR 2006

Growth with the Property Market in the Guangdong Province

With their experience in the property market in the Guangdong Province and their management expertise, GZI REIT Asset Management Limited, in its capacity as the Manager of GZI Real Estate Investment Trust, has managed to achieve their goal of optimizing returns to unitholders. This has been attained through a strong asset base, improved through asset enhancement, and the Manager's unrivalled expertise and quality management strategies in the financial year 2006. In an increasingly prosperous market, the Manager is committed to maintaining a continuous growth, in line with the property market in Guangdong for the years to come.

Managed by

GZI REIT ASSET MANAGEMENT LIMITED

Contents

Our Mission

The mission of GZI REIT Asset Management Limited ("Manager") for GZI REAL ESTATE INVESTMENT TRUST ("GZI REIT") is to provide unitholders of GZI REIT ("Unitholders") with stable distributions per unit ("Unit") of GZI REIT coupled with the potential for sustainable long term growth. The Manager intends to accomplish this through investing in income producing real estate which is primarily used for retail, office and other commercial purposes, in the Guangdong Province in the People's Republic of China ("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 ("Trust Deed") between HSBC Institutional Trust Services (Asia) Limited as the trustee ("Trustee") and the Manager. GZI REIT was listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 21 December 2005 ("Listing Date").

GZI REIT's property portfolio ("Properties") consists of four commercial properties located in Guangzhou and GZI REIT is the first listed real estate investment trust in the world which invests in real property in the People's Republic of China ("PRC").

2007

Expected Date	Event
April 2007	Publication of 2006 Annual Report
May 2007	2006 Annual General Meeting
May 2007	Payment of distribution for six-month period ended 31 December, 2006
August 2007	Publication of 2007 Interim Report
November 2007	Payment of distribution for six-month period ending 30 June, 2007

2008

Expected Date	Event
April 2008	Publication of 2007 Annual Report
May 2008	Payment of distribution for six-month period ending 31 December, 2007

Distribution

TOTAL DISTRIBUTABLE INCOME FOR THE YEAR

The total distributable income (as defined in the Trust Deed, "Total Distributable Income") of GZI REIT to the unitholders of GZI REIT ("Unitholders") for the financial year 2006 ("Reporting Year") amounted to approximately HK$206,683,000, representing distributable income per unit of GZI REIT ("Unit") of approximately HK$0.2067 which exceeded the forecast ("Forecast") as disclosed in the initial public offering circular of GZI REIT dated 12 December 2005 ("Offering Circular") by 2.8%.

In accordance with the Trust Deed, the Total Distributable Income is defined as the amount calculated by the Manager as representing the consolidated audited profit after tax of GZI REIT for the distribution period as adjusted for accounting purposes to eliminate the effects of certain accounting adjustments which have been recorded in the consolidated income statement.

The Manager has calculated the Total Distributable Income in respect of the Reporting Year based on GZI REIT's consolidated profit after tax before transactions with the Unitholders for the Reporting Year and has made an adjustment to eliminate the effects of changes in fair values of investment properties as they appear in the consolidated income statement of GZI REIT.

DISTRIBUTION

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

The Manager has resolved to declare a final distribution to the Unitholders for the period from 1 July 2006 to 31 December 2006 ("2006 Final Period") of HK$0.1034 per Unit. This represents a 100% distribution of GZI REIT's Total Distributable Income for the 2006 Final Period. This amount together with the Total Distributable Income of GZI REIT for the six-month period from 1 January, 2006 to 30 June 2006 ("2006 Interim Period") of HK$0.1033 per Unit represented distributable income per Unit of approximately HK$0.2067 for the year ended 31 December 2006 ("Reporting Year"), which exceeded the ("Forecast") of HK$0.2010 by 2.8%.

The final distribution amounting to approximately HK$103,400,000, in aggregate, will be paid on 25 May 2007.

The Manager confirms that the distribution referred to above composes only of profit after tax before transactions with the Unitholders and does not include any elements in the nature of capital of GZI REIT.

UNITHOLDERS' ENTITLEMENTS AND ASSETS ATTRIBUTABLE TO UNITHOLDERS

Unit	11-day period ended 31 December 2005	Financial Year ended 31 December 2006
Distributions per Unit	HK$0.0405	HK$0.2067
Earnings per Unit	HK$0.0405	HK$0.2444
Distributions yield per Unit based on offer price of HK$3.075	1.32%	6.72%
Distributions yield per Unit based on closing price at year end date	1.18%	6.73%
Net assets attributable to Unitholders per Unit	HK$3.016	HK$3.200
Net tangible assets attributable to Unitholders per Unit	HK$2.863	HK$3.041

Performance Summary

	11-day period ended 31 December 2005	Financial Year ended 31 December 2006
Steady Income		
Net profit after tax	HK$40.543 million	HK$244.436 million
Net property income	HK$5.682 million	HK$324.439 million
Gross income	HK$6.835 million	HK$369.475 million
Stable Returns		
Offer price per Unit at Listing Date	HK$3.075	HK$3.075
Closing price per Unit at year end date	HK$3.450	HK$3.070
Distributions yield per Unit based on offer price	1.32%	6.72%
Distributions yield per Unit based on closing price at year end date	1.18%	6.73%
Units in issue	1,000,000,000 Units	1,000,000,000 Units
Income Producing Asset Base		
Total assets	HK$4,466 million	HK$4,677 million
Total liabilities, excluding net assets attributable to Unitholders	HK$1,450 million	HK$1,477 million
Net assets attributable to Unitholders	HK$3,016 million	HK$3,200 million
Net tangible assets (net assets attributable to Unitholders minus goodwill)	HK$2,863 million	HK$3,041 million
Low Volatility		
Highest premium of traded price to net assets attributable to Unitholders per Unit	HK$0.759	HK$0.500
Highest discount of traded price to net assets attributable to Unitholders per Unit	N/A	HK$0.350
Flexibility in Capital Management		
Total borrowings as a percentage of gross assets (Note a)	29%	27%
Gross liabilities as a percentage of gross asset (Note b)	33%	32%

Note a: Total borrowings are calculated based on bank loan, but excluding capitalization of debt-related expenses.

Note b: Gross liabilities are calculated based on total liabilities, but excluding capitalization of debt-related expenses and net assets attributable to Unitholders.

"We are committed to achieve what we have promised".

"We will enhance future distributions to Unitholders through quality management, pro-active leasing, asset enhancements and yield accretive acquisitions."

To: GZI REIT Unitholders

On behalf of the board of directors ("Board") of the Manager, I am extremely pleased to present to you the 2006 audited annual results of GZI REIT.

Currently, GZI REIT owns four properties — White Horse Building Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units — with a total gross floor area of approximately 160,651 square meters. All the properties are located in Guangzhou, Guangdong Province of the PRC. White Horse Building is situated at the traditional railway station cum commercial/ exhibition district while the other three properties are situated in the Tianhe central business district, in core districts around the vicinity of underground railway stations.

In 2006, Guangdong Province sustained rapid economic development with its economic output ranked as the nation's largest for the eighteenth consecutive year. Guangzhou, as the capital city of Guangdong Province, ranked third in economic output among the nation's major cities. The city's Gross Domestic Product ("GDP") for 2006 exceeded RMB600 billion, representing an increase of approximately 14.4% over that of 2005, which surpassed the PRC's national average growth rate of 10.7% by about 3.7 percentage points. GDP per capita (based on the registered resident population) exceeded US$10,000 for the first time, and the economy rose to a new level. Benefiting from a favourable external economic environment, the real estate market in Guangzhou continued to boom, laying a solid foundation for the business development of GZI REIT.

In 2006, GZI REIT achieved a Total Distributable Income of approximately HK$206.683 million in the year with distribution per Unit of approximately HK$0.2067. Compared to the Forecast, the amount (denominated in HK dollars) to be distributed increased by approximately 2.8%, meeting the year's target.

As at 31 December 2006, the average occupancy rate of the Properties improved from approximately 95.5% as at 31 December 2005 to approximately 98.8%, representing an increase of about 3.3 percentage points. Rent collection rate also achieved an impressive 100%. There was also a slight increase in the overall average rental level.

In October 2006, through almost six months of news research and selections by some 40 national media networks organized and promoted by the China Textile Industry Association, White Horse Building ranked among the top ten of "China's Most Commercially Influential Professional Market (Top 10)" is currently enjoying an extremely good reputation within the country. In December of the same year, Fortune Plaza was awarded the "National Model Building for Property Management" by the Ministry of Construction of the PRC. Guangzhou Yicheng Property Management Limited ("Yicheng"), as a front line service provider, was assessed by the Ministry of Construction of the PRC as a "Grade 1 Property Management Enterprise".

In terms of investment and financial management, GZI REIT adopted prudent financial risk management measures to ensure a financially healthy investment portfolio. As at 31 December 2006, GZI REIT's gearing ratio did not exceed 32%, against the 45% ceiling stipulated by the Code on Real Estate Investment Trusts ("REIT Code") published by the Securities and Futures Commission ("SFC"), allowing a more flexible combination of funding sources to finance future acquisitions.

Looking towards 2007, the PRC economy is expected to grow with a sustainable upward trend. According to the "China Economy Quarterly Report" issued by the World Bank during the first quarter of 2007, the PRC's GDP growth will maintain at around 9.6% in 2007. There is still potential for the RMB to appreciate in value. Overall, this macro-economic environment would benefit GZI REIT's development. However, we also recognise that while the nation's economy is growing, the central Government has implemented a series of macro-economic revision measures aimed at facilitating a healthy and sustainable development of the domestic real estate industry. This is expected to have some impact on the domestic real estate market in the short run. The supply of grade A office buildings in Guangzhou is expected to grow faster in 2007, with a new supply of shop space in the area surrounding White Horse Building. Market competition is expected to become increasingly intense and this may put some pressure on the operations of the Properties. In response, we will enhance our market research to maintain a stable tenant base and to optimize tenant mix. Simultaneously, we will strengthen our internal management to improve operational efficiency and will increase our standard of corporate governance, to achieving a sustainable increase in GZI REIT's revenue growth.

We will bear in mind that GZI REIT is the first listed REIT in the world ever to invest in real estate in mainland of the PRC. Through the investment of retail space, office buildings and other commercial properties in the economically advanced districts centered around the Pearl River Delta, GZI REIT will endeavor to provide Unitholders with sustainable and steady markets returns and to afford investors with an opportunity to participate in the domestic real estate market in the PRC. Thus, we believe that, apart from our current operations, we must fully exploit the unique and advantageous position of GZI REIT in being recognized and known in both Guangdong and Hong Kong markets and to proactively explore expansion and acquisition opportunities externally. This will help strengthen our asset scale and GZI REIT's sustainability.

We would like to take this opportunity to extend our appreciation to all our directors, senior management and staff for their contributions to the development of GZI REIT; and our appreciation to all Unitholders, tenants and business partners for their support to GZI REIT.

LIANG NINGGUANG
Chairman

Hong Kong, 12 April 2007

2006 Business Review and Future Prospects

The Properties comprise White Horse Building Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units, with a total gross floor area of approximately 160,651 square meters and a total gross rentable area of approximately 160,144.8 square meters. As at 31 December 2006, the overall occupancy rate of the Properties was approximately 98.8%, the aggregate annual operating income was approximately HK$369.475 million. The Total Distributable Income amounted to approximately HK$206.683 million with a distribution per Unit of approximately HK$0.2067 which exceeded the Forecast by about 2.8%. All business operations performed to expectation, representing excellent momentum that manifested a sustainable upward trend and a steady pace of development.

OCCUPANCY RATE INCREASED STEADILY

As at 31 December 2006, the gross area of the Properties under lease amounted to approximately 158,144.4 square meters, representing an increase of approximately 11,390.4 square meters compared to the gross area of the Properties under lease at the end of 2005. The overall occupancy rate improved from approximately 95.5% at the end of 2005 to approximately 98.8% at the end of 2006, an increase of about 3.3 percentage points. The Victory Plaza Units and the White Horse Building Units maintained an occupancy rate ranging from almost 100% to exactly 100%. Fortune Plaza Units recorded an occupancy rate of approximately 99.5%, up from approximately 90.2% at the end of the previous year, while the occupancy rate of City Development Plaza Units increased from approximately 92.6% at end of the previous year to approximately 96.0%. These two occupancy rates represented increases of approximately 9.3 percentage points and approximately 3.4 percentage points respectively.

The following table provides a comparison of the occupancy rates of the Properties against those of the previous year:

Name of Property	**Occupancy Rate as at 31 December 2006**	**Occupancy Rate as at 31 December 2005**	**Percentage Increase/ Decrease (-)**
White Horse Building Units	99.8%	100.0%	-0.2
Fortune Plaza Units	99.5%	90.2%	9.3
City Development Plaza Units	96.0%	92.6%	3.4
Victory Plaza Units	100.0%	100.0%	0.0
The Properties	**98.8%**	**95.5%**	**3.3**

OPERATING INCOME ON TARGET

The Properties earned a total rental income of approximately HK$363.639 million during the year. Together with other operating income of approximately HK$5.836 million, total operating income amounted to around HK$369.475 million, exceeding the Forecast by 1.5%.

During the Reporting Year, rental income generated from White Horse Building Units represented 67.7% of total operating income earned from the Properties while each of the other three Properties shared about an average of 10.8%.

No bad debt was recorded for the Reporting Year.

The following table presents the performance of operating income generated from all of the Properties in the Reporting Year:

Name of Property	Operating Income *(HK$ million)*	Operating Income from Specific Property as a Percentage of Total Operating Income
White Horse Building Units	249.999	67.7%
Fortune Plaza Units	45.521	12.3%
City Development Plaza Units	41.540	11.2%
Victory Plaza Units	32.415	8.8%
The Properties	**369.475**	**100.0%**

OPTIMIZING TENANT MIX; BEEFING UP CORE COMPETENCE

According to the data provided by the Housing Division of the Municipal Land Bureau of Guangzhou, the new supply of office buildings in Guangzhou exceeded 500,000 square meters in the Reporting Year. This exerted a certain degree of pressure on the leasing operations of office properties under GZI REIT. In order to increase the core competence of each of the Properties and to face the challenges of the market, we placed great emphasis on the adjustment and optimisation of tenant mix. We brought in quality tenants that fit the characteristics of each of the Properties to replace outgoing tenants or to fill vacant premises. We also optimized our arrangement for existing tenants and units by prioritizing supports for quality tenants that require more leasing space and by proactively retaining quality tenants.

After a year's effort, our tenant mix showed manifest improvement.

Levels 8 and 9 of White Horse Building were renovated and upgraded to become a "Marketing Zone for Quality Brands" for some 30 foreign and domestic renowned fashion brands, enhancing the building's leading position as a wholesale clothing market, not only in Guangzhou, but also the nation.

The two office properties, Fortune Units Plaza and City Development Plaza Units, maintained a relatively high renewal rate of approximately 61.57% and 80.53% respectively. While retaining its existing tenants, Fortune Plaza saw a further increase in the ratio of the gross rentable area leased by financial institutions to around 40% after an additional 2,000 square metres were leased by HSBC Group. While retaining famous domestic enterprises such as China Mobile and Cosfre (中國遠洋貨運), the successful introduction of overseas companies such as Konica and Unitika Ltd. of Japan (日本尤尼吉可株式會社) has increased the proportion of gross rentable area leased by foreign companies in City Development Plaza.

Victory Plaza Units made a successful move in promoting its differentiation strategy in the Tianhe commercial district. Owing to its pre-listing reorganization, the original tenant on the 2nd, 3rd and 4th Floors of Victory Plaza, Guangzhou Xindaxin Co., Ltd., assigned the residue of its lease to a famous office supplies wholesaler/supplier in Guangzhou) ("Assignee"). After entering into possession, the Assignee decided to terminate its lease on 31 December 2006 due in part to the construction work of the two office towers on top of Victory Plaza and Ti Yu Xi Road's underground air defense shelter and the new underground railway station. Immediately after such termination, approximately 75% of the area so re-possessed by GZI REIT were leased to GOME, an existing tenant located on the lower ground floor, and the average rental of the new lease was increased by approximately 20% as compared with the previous lease. Following its expansion of the lease, the total operating area of GOME at Victory Plaza reached 11,366.34 square metres. GOME's operating objective is to establish the "Number One Store of GOME Electric Appliance in the PRC". We expect this will create a competitive advantage by differentiating Victory Plaza from other shopping arcades in the Tianhe commercial circle.

PROMOTING ASSET EXHANCEMENT PROJECTS; INCREASING RATE OF RETURN ON WHITE HORSE BUILDING UNITS

The Properties had an overall occupancy rate that had reached a promising level. In order to increase the rate of return on assets, we have focused on the enhancement of asset value of White Horse Building Units in 2006. We finished renovating Levels 8 and 9 of White Horse Building on schedule in April 2006, increasing its floor area for wholesaling and retailing. Newly added shops/offices were leased through one public auction, resulting in rental per square meter exceeding the Forecast by approximately 20%, accomplishing the objective of asset enhancement. In addition, in accordance with the Offering Circular, we expended a total of HK$12.876 million to renovate and improve White Horse Building's fire-prevention system, elevators, and the customer service center in the lobby area. This significantly improved the building's equipment and facilities as well as its shopping environment. In 2007, we will proceed with renovating selected electrical cable system of the building as well as renovating the passages of some floors to further improve the building's infrastructure. By utilising the remaining budgeted amount in this manner, we aim to maintain the White Horse Building Units' competitiveness.

ENHANCED PROPERTY MANAGEMENT TO ENSURE SAFETY OF ASSET OPERATION

In order to protect the safety of our Properties and to continually improve the management and service qualities of the Properties as well as to protect Unitholders' interests, we have implemented an effective monitoring system (including repair and maintenance systems for various equipment and facilities, emergency plans to cope with accidents and various risk management systems, etc.). We have also taken preventive measures by having scheduled fire safety inspections and fire drills to uncover hidden problems and will subsequently undertake the appropriate remedial actions as a precautionary measure. In addition, we have also set up an asset operation evaluation system by drawing support from the professional expertise of Jones Lang LaSalle, our property consultant, to carry out a full inspection and evaluation of the operating conditions of the Properties. Simultaneously, we also arranged organizational reforms and business training to raise property management standards.

2006 Business Review and Future Prospects

FUTURE PROSPECTS

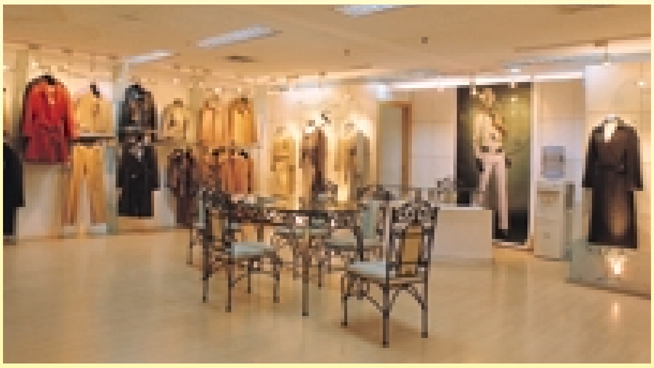
We believe the PRC's domestic economic environment will continue to thrive in 2007, resulting in GZI REIT having an even broader horizon for development. We will diligently conduct market studies and improve operation management standards in order to provide sustainable, stable and increased returns for our investors.

Concerning White Horse Building Units, we will take advantage of the White Horse website, VIP club, the service center in the lobby area and the performance stage at the atrium, as well as the building's other existing amenities. Promotional activities will be increased to create and promote the building's brand image and influence further. The integrated planning and deployment of external and internal advertising space will be further improved. Through reasonable segmentation, allocation and consolidation, we will set up advertising sites in suitable locations of the building and increase operating space in order to increase operating income generated from the property. At the same time, we will improve the shopping arcade Signage and directory system to promote the commercial atmosphere. We will also proactively promote better customer relationship management, extend special feature services, and enhance management and service qualities to boost the building's core competence.

Regarding the two office buildings, Fortune Plaza Units and City Development Plaza Units, we will fully leverage on their unique features as properties offering convenient commuting being situate next to underground railway stations, full amenities and excellent property management. We will study their specific positioning to further optimize their tenant mix, bring in good tenants and upgrade project scales and attractions. Customer relationship management programs will also be implemented to increase customers' satisfaction, and to retain quality tenants. Through effective measures, we will steadily increase rental levels while maintaining relatively high occupancy rates.

For Victory Plaza Units, we will take advantage of the completion and delivery of the phase 1 and 2 office towers on top, the completion of the Tiyuxilu civil air defense shelter in front of the plaza and the opening of the underground railway's third line, to improve its marketing strategy and its internal and external image. We will give strong support to the shop expansion plan and promotional activities implemented by the building's anchor tenant GOME. For vacant units, we will focus on introducing complementary business sectors such as banks, feature restaurants and convenient stores to meet the overall operating needs following the completion of the phase 2 project of the building and enhance the competitiveness and income of the retail mall.

While we maintain the operations of existing projects, we will actively implement our asset acquisition plan. Pursuant to this, we will look towards acquiring properties with recurring profit-making capabilities, including but not limited to exercising our right of first refusal to acquire existing and newly finished projects from Guangzhou Investment Company Limited with the aim of reducing GZI REIT's reliance on any individual property or major tenants. Steady earnings from property investment can then be maintained, and GZI REIT will then enhance its resilience.



DISTRIBUTION YIELD

The Properties performed well during the Reporting Year with distribution per Unit ("DPU") exceeding the Forecast by 2.8% at HK$0.2067.

Based on the closing price of the Units as at 31 December 2006 of HK$3.070, the DPU for the Reporting Year represents a yield of 6.73%, as compared to the yield of 6.55% as disclosed in the Forecast. Using the offer price as at the Listing Date of HK$3.075 ("Offer Price"), the DPU for the Reporting Year represents a yield of 6.72%, as compared to the yield of 6.54% as disclosed in the Forecast.

NET ASSET VALUE

The net asset value per Unit as at 31 December 2006 was approximately HK$3.200, which represents an increase of approximately 6.1% as compared to net asset value per Unit of approximately HK$3.016 as at 31 December 2005. The net tangible asset value per Unit as at 31 December 2006 was approximately HK$3.041, which represents an increase of approximately 6.2% as compared to the net tangible asset per Unit of approximately HK$2.863 as at 31 December 2005.

The increase in the net asset value per Unit was mainly attributable to the increase in the net profit after tax and before fair value gain on investment properties and transactions with the Unitholders of approximately HK$206.683 million of GZI REIT during the Reporting Year and the increase in the valuation of the Properties as at 31 December 2006 to approximately HK$4,240.1 million as compared to a valuation of approximately HK$4,053.8 million as at 31 December 2005.

UNIT ACTIVITY

Market price of the Units has been relatively stable and the percentage fluctuation, above and below the Offer Price of HK$3.075, did not exceed 21% during the Reporting Year.

The unit price of GZI REIT reached a high of HK$3.70 and a low of HK$2.85 during the Reporting Year. An average of approximately 5.318 million Units were transacted during the Reporting Year.

The closing price of the Units as at 31 December 2006 was HK$3.070, representing a discount of approximately 0.16% as compared to the Offer Price of HK$3.075. This represent a discount of approximately 4% as compared to the net assets per Unit as at 31 December 2006.

The discount referred to above has made GZI REIT an attractive investment to long term investors.

Since the Listing Date, a total of 1,000,000,000 Units were in issue.

FINANCIAL RESULTS

The Properties continued to perform well during the Reporting Year. GZI REIT's consolidated net profit after tax before transactions with the Unitholders amounted to approximately HK$244.436 million.

Excluding the effect of fair value gain on investment properties, GZI REIT's consolidated net profit after tax during the Reporting Year amounted to approximately HK$206.683 million, representing an increase of approximately 2.8% as compared to the forecasted profit of HK$201.0 million as stated in the Forecast (for the Reporting Year) as disclosed in the Offering Circular. The following is a summary of GZI REIT's financial results during the Reporting Year:

	Actual HK$'000	Forecast HK$'000 (Note 1)	% of Increase/ (Decrease)
Gross income	369,475	364,039	1.5%
Leasing agents' fee	(12,279)	(12,125)	1.3%
Property related taxes	(29,232)	(28,678)	1.9%
Other property expenses (Note 2)	(3,525)	(7,045)	(50.0%)
Total property operating expenses	(45,036)	(47,848)	(5.9%)
Net property income	324,439	316,191	2.6%
Withholding tax	(35,387)	(34,705)	2.0%
Manager's fees	(23,765)	(21,935)	8.3%
Trustee's fees	(1,403)	(1,245)	12.7%
Other trust expenses (Note 3)	(12,540)	(7,904)	58.7%
Total non-property expenses	(73,095)	(65,789)	11.1%
Net profit before finance costs, interest income and tax	251,344	250,402	0.4%
Interest income	5,696	2,743	107.7%
Finance costs	(50,357)	(52,138)	(3.4%)
Net profit before tax	206,683	201,007	2.8%
Income tax expenses	—	—	N/A
Net profit after tax before fair value gains on investment properties	206,683	201,007	2.8%
Fair value gains on investment properties	37,753	N/A	N/A
Net profit after tax before transactions with Unitholders	244,436	N/A	N/A
Transactions with Unitholders:			
Distributions paid to Unitholders	103,300	N/A	N/A
Proposed distributions to Unitholders	103,400	N/A	N/A

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

Note 2 Other property expenses included valuation fee, insurance premium, depreciation and bank charges incurred at the level of the Properties.

Note 3 Other trust expenses included audit fees, legal advisory fees, printing charges, company secretarial fees, unit registrar's fees, listing fees and miscellaneous expenses.

Gross income and net property income during the Reporting Year were approximately HK$369.475 million and HK$324.439 million respectively. They exceeded the projections in the Forecast by approximately 1.5% and 2.6% respectively.

Gross income included rental income of approximately HK$363.639 million and other income of approximately HK$5.836 million which included advertising income, administrative charges for new leases and late settlement.

Net property income amounted to approximately HK$324.439 million, representing approximately 88% of total gross income, after deduction of relevant PRC taxes, leasing agent's fees and other property operating expenses.

Despite the increase in gross income, the total property operating expenses incurred during the Reporting Year was approximately 5.9% less than the original budgeted expenses as disclosed in the Forecast. This was mainly attributable to the Manager's effective cost control strategy on property expenses and no bad debts were incurred.

The fees of the Manager and the Trustee increased by approximately 8.3% and 12.7% respectively as a result of the increase in total assets and net property income.

Other trust expenses increased by approximately 58.7% as compared with the forecasted expenses as indicated in the Forecast. This was mainly attributable to the increase in printing charges and unit registrar's fees as a result of an underestimation of the number of investors and the increase in professional fees for services rendered by legal advisers and company secretaries.

Interest income amounted to approximately HK$5.696 million, which represented an increase of approximately 107.7% compared with the budgeted interest income as indicated in the Forecast. This was attributable to the general increase in deposit rates in the Reporting Year and the Manager's arrangement with the relevant bank in Guangzhou for a relatively favourable interest rate for rental deposits in Renminbi.

Renminbi has been appreciating in value since the beginning of the Reporting Year and for the purposes of preparing the consolidated income statement of GZI REIT, the Manager has applied an exchange rate of RMB1.0247 to HK$1, representing an average exchange rate during the Reporting Year.

Excluding the appreciation of Renminbi as a factor, the Manager has managed to achieve the budgeted gross income, net property income and net profit after tax as referred to in the Forecast.

PROPERTY VALUATION

The Manager has engaged Colliers International Hong Kong Limited ("Colliers") as an independent property valuer to conduct a valuation of the Properties as at 31 December 2006. According to the valuation, the total value of the Properties amounted to approximately HK$4,240.1 million, representing an increase of 4.5% as compared with the valuation as at 31 December 2005.

Approximately 3.5% of the increase in the valuation is attributable to the appreciation of Renminbi in the Reporting Year and the Manager's adoption of the exchange rate of RMB1.0047 to HK$1 as at the date of the consolidated balance sheet of GZI REIT. The fair value gain of the Properties amounted to approximately HK$37.753 million.

The slight increase in valuation indicates the stable environment of the investment property market in Guangzhou.

The following table summarizes the valuation of each of the Properties as at 31 December 2006 and 31 December 2005:-

	Valuation as at 31 December, 2006 HK$ million	Valuation as at 31 December, 2005 HK$ million	Percentage of each property as to the Properties as at 31 December, 2006 %
White Horse Building Units	2,696.3	2,574.0	63.6
Fortune Plaza Units	581.9	554.8	13.7
City Development Plaza Units	410.2	392.0	9.7
Victory Plaza Units	551.7	533.0	13.0
Total	4,240.1	4,053.8	100%

The subject valuation was prepared by Colliers based on an average of the values derived using the income capitalisation approach and the discounted cash flow analysis.

CAPITAL MANAGEMENT

The capital management policy of GZI REIT is to achieve optimal debt profile. The special purpose vehicles of GZI REIT ("SPVs") 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 which was fully drawn down on the Listing Date. The term loan is repayable in 3 years from the date of the drawdown. 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.

TOTAL BORROWINGS AND TOTAL LIABILITIES TO ASSET RATIO

As at 31 December 2006, total borrowings of GZI REIT amounted to US$165 million, representing approximately 27% of total assets of GZI REIT.

As at 31 December 2006, total liabilities of GZI REIT (excluding net assets attributable to the Unitholders) amounted to approximately HK$1,477.733 million, representing approximately 32% of total assets of GZI REIT.

The Manager considers that the above gearing ratio is low compared with the maximum limit stipulated by REIT Code. This allows more flexibility in capital management in making future acquisitions.

CASH POSITION

Cash balance of GZI REIT as at 31 December 2006 amounted to approximately HK$253.846 million. GZI REIT has sufficient financial resources to satisfy its financial commitments and working capital requirements.

The Manager has adopted a conservative approach in cash management to ensure flexibility to meet the operational needs and the distributions of GZI REIT.

ACCOUNTING TREATMENT:

Units recorded as Financial Liabilities; 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 the Unitholders not less than 90% of its audited annual net income after tax, subject to certain adjustments as defined in the Trust Deed.

GZI REIT has a limited life of 80 years from the date of establishment. Accordingly, the Units contain contractual obligations to pay cash dividends and, upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of GZI REIT less any liabilities, in accordance with Unitholders' proportionate interests in GZI REIT at the date of the termination of GZI REIT.

In accordance with the Hong Kong Acccounting Standards ("HKAS 32"), GZI REIT has, for accounting purposes, designated its Units financial (not legal) liabilities.

On the basis of the HKAS 32, distributions to be paid to the Unitholders represent finance costs and are therefore presented as expenses in the consolidated income statement. Consequently, GZI REIT has, for accounting purposes, recognised distributions as finance costs in its audited consolidated income statement.

The above accounting treatment does not have any impact on the net assets attributable to the Unitholders.

RENOVATION PROJECTS FOR WHITE HORSE BUILDING UNITS

Background

In accordance with the Reorganisation Deed dated 7 December 2005 signed between the Manager, the Trustee and Guangzhou Investment Company Limited ("GZI") together with its subsidiaries ("GZI Group"), GZI Group provided an amount of HK$26.7 million for proposed renovation works for the White Horse Building Units.

Since the Listing Date, the Manager has been applying the abovementioned funds on certain renovation works at White Horse Building Units.

Purpose of Renovation Works

After due and careful consideration of the conditions of White Horse Building Units and for purpose of maximizing returns to the Unitholders, the Manager has set out key purposes of the subject renovation works. The key purposes include the following:-

(a) to ensure compliance with Chinese laws and regulations from time to time; and

(b) to ensure competitiveness by improving the condition of the building and its facilities for sustainable rental income growth.

The Manager has adopted a prudent risk management policy to ensure that any implementation of renovation works will not result in significant adverse effect on the normal business operations of tenants of White Horse Building Units.

The Manager has determined that fire safety and fire prevention improvement works are the most important renovation works for ensuring the safety of White House Building Units; whilst the conversion of the areas on the Levels 8 and 9 for wholesale and retail purposes is another key renovation project for improving rental earnings. The remaining renovation works relate to electrical and/or structural improvements and alterations as part of the asset enhancement plan of White Horse Building Units.

Progress of Renovation Works

As at 31 December 2006, GZI REIT has incurred capital expenditure of approximately HK$12.876 million using the abovementioned funds.

Such capital expenditure included approximately HK$7.643 million of fixed assets related capital expenditure and approximately HK$5.233 million of investment properties related capital expenditure.

The fixed assets related capital expenditure includes fire prevention improvement works, adding or upgrading illuminated exit signs and surveillance systems, elevator alteration works, electrical appliances alteration works and maintenance of cables and electrical wiring.

The investment properties-related capital expenditure includes alteration works for washrooms and the renovation of Levels 8 and 9 for wholesale and retail use, the latter of which amounted to contract value of approximately HK$5.726 million, which is materially in line with the original budget as disclosed in the Forecast.

Proposed renovation works to be conducted

The Manager intends to apply the balance of the subject funds to conduct renovation alteration works for common corridors, lobby, lift lobby and electrical wires in the financial year 2007.

The Manager estimates that total fixed assets-related and investment properties-related capital expenditure incurred in the Reporting Year and to be incurred in the financial year 2007 will be materially in line with the original capital expenditure of HK$10.3 million for fixed assets and HK$16.4 million for investment properties related capital expenditure as disclosed in the Forecast.

The extension of time schedule for the above renovation beyond the Reporting Year is attributable to the Manager's prudent risk management approach as extensive works carried out simultaneously may affect normal business operations of the tenants and defeat the purpose of asset enhancement.

TOP FIVE REAL ESTATE AGENTS AND CONTRACTORS ENGAGED BY GZI REIT

During the Reporting Year, GZI REIT has engaged Yicheng and White Horse Property Management Company Ltd. ("White Horse Property Management Company") (collectively, "Leasing Agents") to provide designated leasing, marketing, tenancy management and property management services to the Properties.

During the Reporting Year, GZI REIT paid service fees to Yicheng and White Horse Property Management Company in the amounts of HK$4.779 million and HK$7.500 million respectively.

During the Reporting Year, GZI REIT has engaged various contractors to conduct renovation works for White Horse Units. The top five contractors and their respective values of services may be summarised as follows:-

Name of contractors	Nature of services	Value of services HK$'000
1. 廣州市泰昌消防工程有限公司	fire service improvement works	5,700
2. 廣州鳴鏑裝飾設計有限公司	renovation works for Levels 8 and 9	2,468
3. 廣州市新五羊水電裝飾工程有限公司	renovation works for Levels 8 and 9	1,715
4. 廣州市柏域網絡有限公司	surveillance system	778
5. 廣州市康和建築工程有限公司	renovation works for washrooms and replacement of electrical wires	475
		11,136

The aggregate value of services rendered by the top five contractors engaged by GZI REIT during the Reporting Year amounted to HK$11.136 million.

SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

GZI REIT did not enter into any real estate sales and purchases during the Reporting Year.

REPURCHASE, SALE OR REDEMPTION OF UNITS

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

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

NEW UNITS ISSUED

There were no new Units issued during the Reporting Year.

EMPLOYEES

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

CORPORATE GOVERNANCE

The Manager has adopted an overall corporate governance framework that is designed to promote the operation of GZI REIT in a transparent manner with built-in checks and balances which are critical to the performance of the Manager and consequently, the success of GZI REIT.

The Manager has adopted a compliance manual ("Compliance Manual") for use in relation to its management and operation of GZI REIT which includes key policies and procedures for maintaining a high standard of corporate governance.

During the Reporting Year, the Manager has complied with the provisions of the Compliance Manual for its management of GZI REIT.

REVIEW OF FINANCIAL RESULTS

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

ISSUANCE OF ANNUAL REPORT

The annual report of GZI REIT for the Reporting Year will be dispatched to the Unitholders on or before 30 April 2007.

ANNUAL GENERAL MEETING

The Manager proposed that the annual general meeting of GZI REIT for the Reporting Year held on 15 May 2007. Notice of the annual general meeting will in due course be published and issued to the Unitholders in accordance with the Trust Deed.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from 8 May to 15 May 2007, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with GZI REIT's unit registrar, Tricor Investor Services Limited, of 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 7 May 2007.

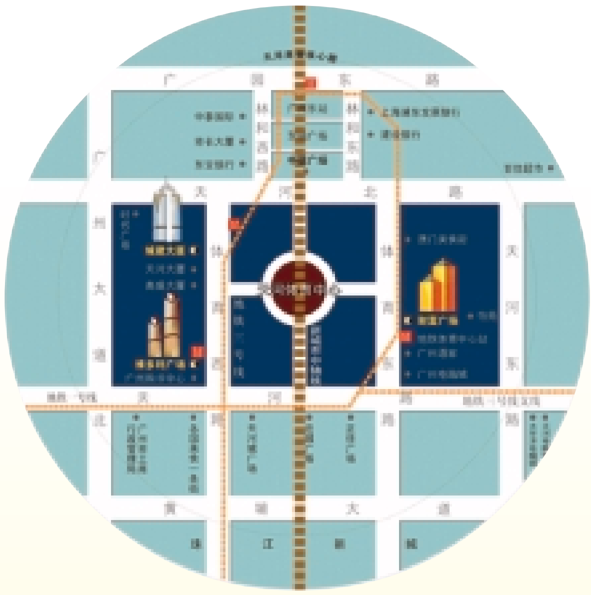
The Properties comprise four high-quality real estate, namely, White Horse Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units, all located in the core business district of Guangzhou, PRC. Among them, the White Horse Building is located in the Guangzhou train station trade and exhibition region, adjacent to China Import and Export Fair and with a diversity of wholesale markets specialising in clothing, shoes and leatherware concentrated in the surrounding areas. The remaining three properties are located in the emerging Tianhe central business district and are distributed on both sides of the axis of the new town city of Guangzhou. Being the most important region in which grade-A offices are concentrated, Tianhe central business district is the largest modern business trade district in Guangzhou, with highly concentrated metro line networks, convenient transportation, heavy pedestrian traffic and sound ancillary facilities.

The Properties have a total gross floor area of approximately 160,651.0 square metres and a rentable area of approximately 160,144.8 square metres. As at 31 December 2006, the overall occupancy rate of the portfolio was 98.8%.

According to valuation opinion issued by Colliers International (Hong Kong) Limited on 31 December 2006, the Properties was valued at a total value of HK$4,240.1 million.

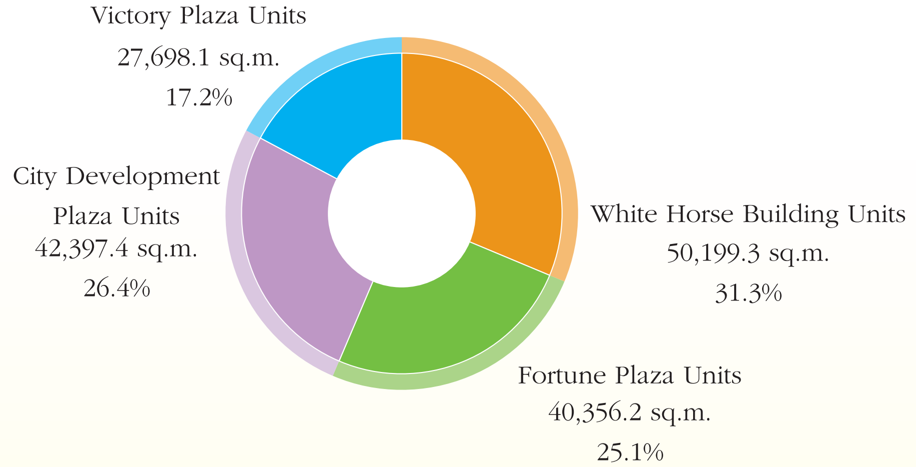
The diagram below shows the location of the Properties in Guangzhou:

Fortune Plaza, City Development Plaza and Victory Plaza: Located in the Tianhe central business district



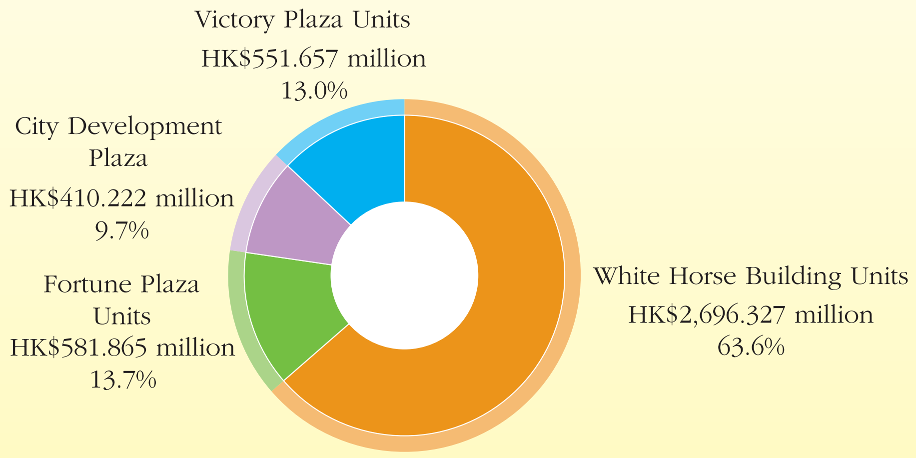
White Horse Building: Located in the Guangzhou Railway Station trade and exhibition region

Property Areas of the Properties



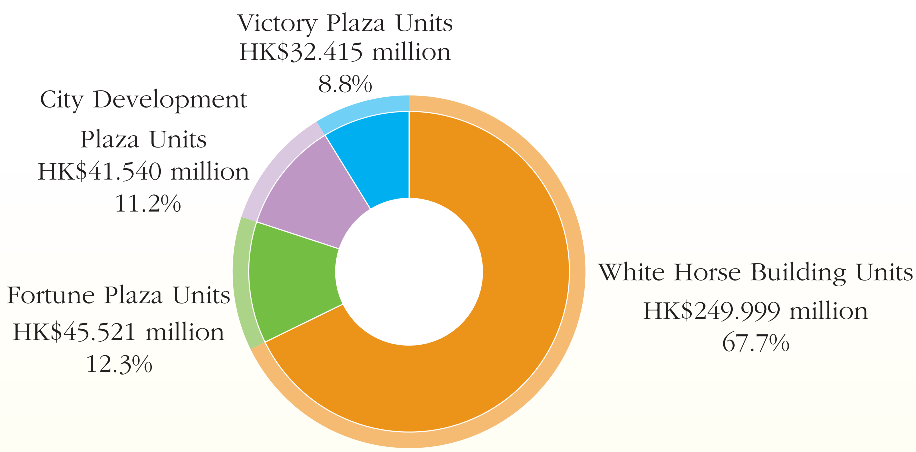
Note: The areas of the Properties referred to above represent the gross floor areas recorded on relevant title documents.

Property Values of the Properties

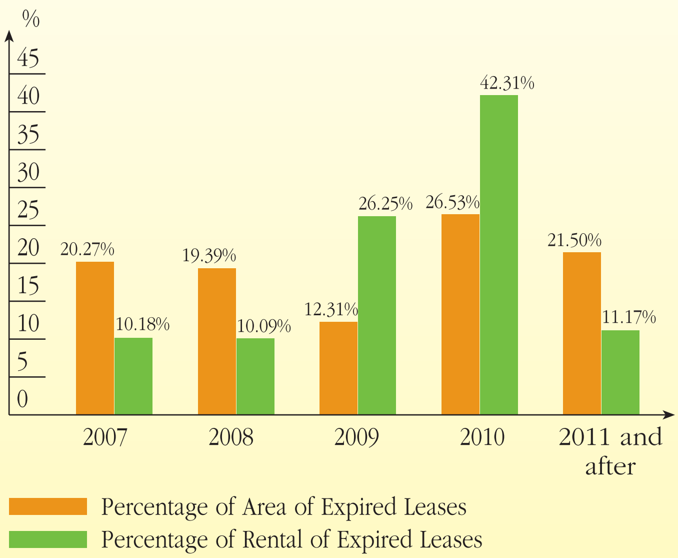


Source of information: The property valuation report issued by Colliers International (Hong Kong) Limited on 31 December 2006.

Operating Income Generated by the Properties in 2006



Lease Expiries of GZI REIT Properties



Note: The leases of the Units which expire in 2007 to 2008 mainly located in Fortune Plaza Units and City Development Plaza Units; the leases of the Units which expire in 2009 to 2010 mainly located in White Horse Building Units.

White Horse Building Units – a famous fashion wholesale and retail centre in the PRC

White Horse Building Units – a famous fashion wholesale and retail centre in the PRC

Location

Nos. 14,16 and 18, Zhan Nan Road,
Yue Xiu District, Guangzhou,
Guangdong Province, the PRC

Year of completion

1990

Percentage of entire White Horse Buiding owned by GZI REIT

81.4%

Gross rentable area

50,128.9 sq.m.

Operating income for Reporting Year

HK$249.999 million

Valuation[1]

HK$2,696.327 million

Number of leases[1]

1,299

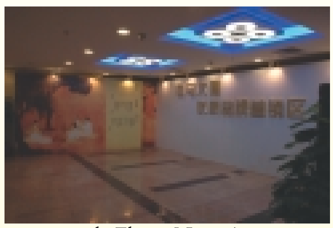
Occupancy Rate[1]

99.8%

Note 1: As at 31 December 2006.


Front Door Square


Performance Stage


8th Floor New Area


9th Floor New Area

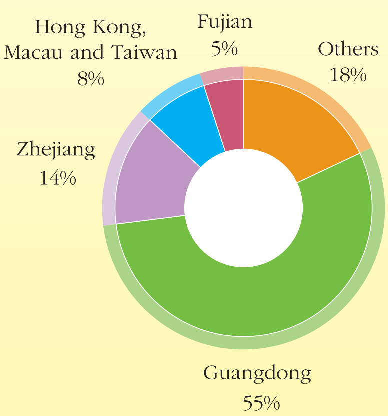
White Horse Building is located in Liuhua District, a traditional trade and exhibition region in Guangzhou. It is adjacent to the Guangzhou Railway Station, Guangdong and Guangzhou City Long Distance transportation terminal and No.2 metro line, enjoying convenient transportation connections. Many garment wholesale markets are located in the areas surrounding White Horse Building, with a strong regional business atmosphere. Ancillary facilities are sound.

White Horse Building was completed and opened for use in 1990 with a total gross floor area of more than 60,000 sq.m. It has a total of 10 storeys, including four levels of shopping arcades, five levels of offices and an underground car park. Modern facilities include a 1,500-sq.m.fashion show plaza, bank, supermarket, business centre, consignment station, fast-food shop, central air conditioning, passenger and cargo lifts, security monitoring system, fire prevention system and wide-band network.

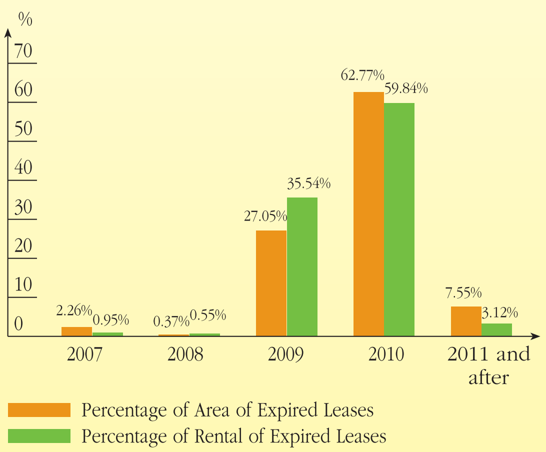
White Horse Building has been repeatedly recognized by authoritative institutions in the industry as the "Top 10 Garment Wholesale Markets in the PRC", "Professional Market with the Greatest Business Influence in the PRC" and "Most Competitive Market in the PRC". Its tenants consist of domestic garment enterprises from all across the PRC as well as manufacturers from Hong Kong, Macau and Taiwan. Products are exported to various countries and regions such as Russia, Middle East and Southeast Asia.

Apart from keeping abreast of and responding to market trends, the Manager will focus on the micro-management of the these units so as to improve the service quality and ensure a stable occupancy rate and rental income in 2007.

Distribution of Tenants of White Horse Building Units by Region



Lease Expiries of White Horse Building Units



White Horse Building Units – a famous fashion wholesale and retail centre in the PRC

Top 10 tenants of White Horse Building Units

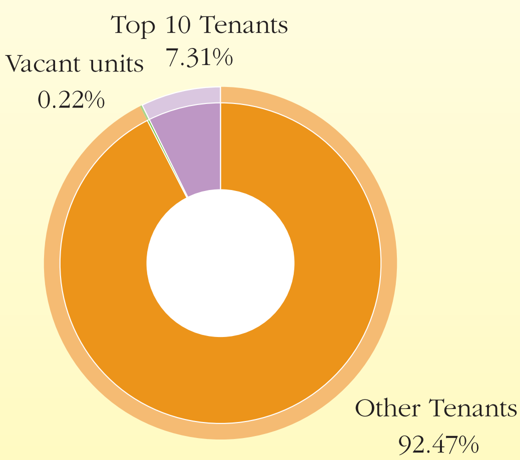
Measured by rentable area

	Name of Tenant	Industry	Rentable Area (sq.m.)	Percentage of Total Gross Rentable Area
1	盧少英	Wholesale/Retail	538.76	1.07%
2	陳雙霞	Wholesale/Retail	456.44	0.91%
3	謝麗娜	Wholesale/Retail	383.83	0.77%
4	牟志毅	Catering	380.75	0.76%
5	曾富浩	Wholesale/Retail	356.40	0.71%
6	王志峰	Wholesale/Retail	326.91	0.65%
7	陳家權	Wholesale/Retail	322.74	0.64%
8	王鴻儀	Wholesale/Retail	309.99	0.62%
9	孫銘墉	Wholesale/Retail	306.29	0.61%
10	鄭珠明	Wholesale/Retail	286.18	0.57%
	Sub-total for top 10 tenants		**3,668.29**	**7.31%**
	Sub-total for other tenants		46,352.68	92.47%
	Sub-total for vacant units		107.93	0.22%
	Total		**50,128.90**	**100.00%**

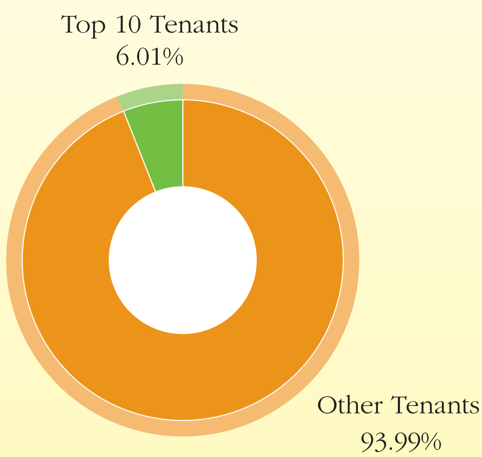
Measured by monthly rental

	Name of Tenant	Industry	Monthly Rental (Rmb)	Percentage of Total Monthly Rental
1	盧少英	Wholesale/Retail	189,539	0.89%
2	陳雙霞	Wholesale/Retail	153,710	0.72%
3	趙柯春	Wholesale/Retail	153,521	0.72%
4	孫銘墉	Wholesale/Retail	121,496	0.57%
5	鄭珠明	Wholesale/Retail	119,339	0.56%
6	Bank of Communications	Finance and insurance	118,265	0.55%
7	陳家權	Wholesale/Retail	112,307	0.53%
8	姚瞻豪	Wholesale/Retail	110,902	0.52%
9	謝麗娜	Wholesale/Retail	102,831	0.48%
10	程雪	Wholesale/Retail	100,207	0.47%
	Sub-total for top 10 tenants		**1,282,117**	**6.01%**
	Sub-total for other tenants		20,033,729	93.99%
	Sub-total for vacant units		N/A	N/A
	Total		**21,315,846**	**100.00%**

Top 10 Tenants' Profile of White Horse Building Units (Measured by Rentable Area)



Top 10 Tenants' Profile of White Horse Building Units (Measured by Monthly Rental)



Fortune Plaza Units—Grade-A commercial building erected above metro station, a wealth centre for multi-national corporations

Fortune Plaza Units—Grade-A commercial building erected above metro station, a wealth centre for multi-national corporations

Location
Nos. 114, 116 and 118, Ti Yu Dong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC

Year of completion
2003

Percentage of Fortune Plaza owned by GZI REIT
50.2%

Gross rentable area
40,356.2 sq.m.

Operating income for the Reporting Year
HK$45.521 million

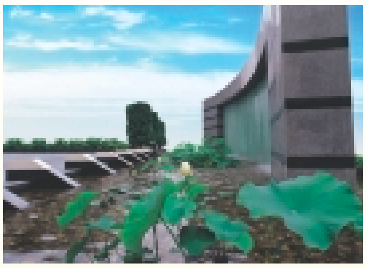
Valuation[1]
HK$581.865 million

Number of leases[1]
79

Occupancy Rate[1]
99.5%

Note 1: As at 31 December 2006.

Office Building Lobby



Front Door Square

Facilities - Club House
(not owned by GZI REIT)

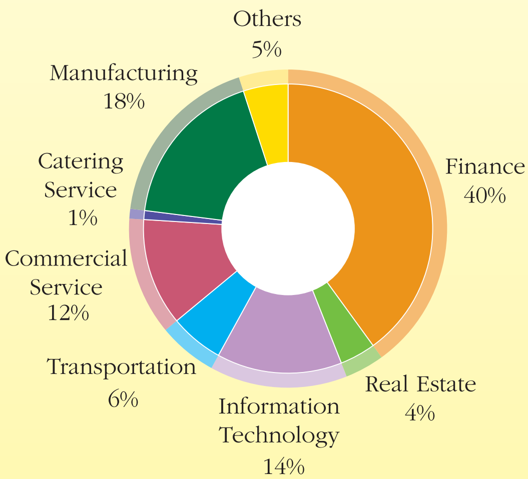
Fortune Plaza is located in Ti Yu Dong Road, Tien He District, which is known as the "Guangzhou Wall Street" and is an "Intelligent 5A" top-grade office building erected above the stadium metro station, which is the interchange of metro lines Nos.1 and 3 with various public transport station in front of the building.

Fortune Plaza opened in 2003 with a total gross floor area of more than 80,000 sq.m. The two office buildings comprise the East Tower and the West Tower have 38 and 28 storeys respectively, with ancillary facilities such as a 2,000-sq.m. waterfall plaza, a 1,500-sq.m. luxury business hall, multi-functional convention centre, business centre and western restaurant.

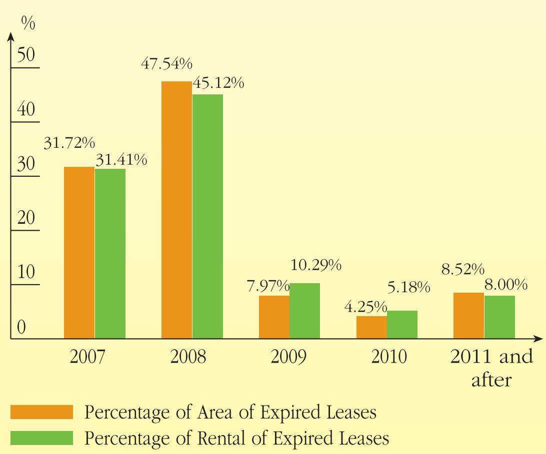
Fortune Plaza was recognized by the Ministry of Construction as one of the "National Model Building for Property Management (全國物業管理示範大廈)" in 2006. Currently various foreign banks and World Top 500 enterprises have secured tenancies in it. Major tenants include HSBC, Citibank, DBS Bank, Shenzhen Development Bank, Korea National Tourism Organization (韓國國家旅遊局), China Petroleum (中國石油) and Alibaba network company.

As at 31 December 2006, the occupancy rate of Fortune Plaza reached 99.5%. In 2007, the objective of the Manager in respect of this property is to increase the quality of the tenant mix, ensure a stable occupancy rate and progressively increase the rental level for renewal leases.

Distribution of Industries in which Tenants of Fortune Plaza Units are engaged (Measured by Rentable Area)



Lease Expiries of Fortune Plaza Units



Fortune Plaza Units—Grade-A commercial building erected above metro station, a wealth centre for multi-national corporations

Top 10 tenants of Fortune Plaza Units

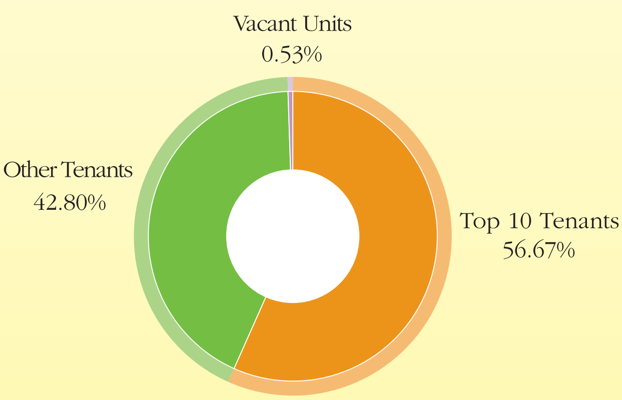
Measured by rentable area

	Name of Tenant	Industry	Rentable Area (sq.m.)	Percentage of Total Gross Rentable Area
1	HSBC Software Development (Guangdong) Limited	Finance and insurance	10,550.20	26.14%
2	Alibaba (China) Technology Co., Ltd. Guangzhou Filiable	E-commerce	3,272.76	8.11%
3	Petro China South China Chemicals & Marketing Company	Oil	2,183.66	5.41%
4	Guangzhou Haiyi Property Development Co., Ltd.	Real estate	999.01	2.48%
5	CITS American Express Southern China Air Services Ltd.	Transportation	999.01	2.48%
6	Cheveron (China) Investment Co., Ltd Guangzhou Branch	Petroleum	997.66	2.47%
7	Astrazenezu Pharmaceutical Co. Ltd. Guangzhou Office	Pharmaceutical	997.66	2.47%
8	Shanghai Far Glory Business Services Co., Ltd. Guangzhou	Commerce	997.66	2.47%
9	Kuehne & Nagel Limited Guangzhou Branch Office	Transportation	997.66	2.47%
10	LG Chem (China) Investment Co., Ltd.	Electric appliances	874.33	2.17%
	Sub-total for top 10 tenants		**22,869.61**	**56.67%**
	Sub-total for other tenants		17,273.39	42.80%
	Sub-total for vacant units		213.2	0.53%
	Total		**40,356.20**	**100.00%**

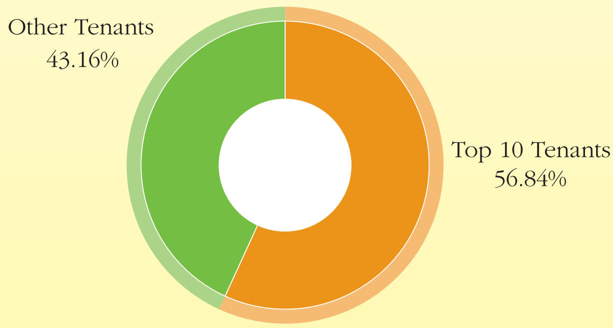
Measured by monthly rental

	Name of Tenant	Industry	Monthly Rental (Rmb)	Percentage of Total Monthly Rental
1	HSBC Software Development (Guangdong) Limited	Finance and insurance	875,666	22.19%
2	Alibaba (China) Technology Co., Ltd. Guangzhou Filiable	E-commerce	278,004	7.05%
3	Petro China South China Chemicals & Marketing Company	Oil	241,281	6.12%
4	Korea National Tourism Organization Guangzhou Office	Tourism	189,708	4.81%
5	廣州市真功夫餐飲管理有限公司	Catering	129,960	3.29%
6	Cheveron (China) Investment Co., Ltd Guangzhou Branch	Petroleum	117,724	2.98%
7	Guangzhou Haiyi Property Development Co., Ltd.	Real estate	104,896	2.66%
8	Astrazenezu Pharmaceuticals Co. Ltd. Guangzhou Office	Pharmaceutical	104,754	2.65%
9	CITS American Express Southern China Air Services Ltd.	Transportation	102,898	2.61%
10	Shanghai Far Glory Business Services Co., Ltd. Guangzhou	Commerce	97,771	2.48%
	Sub-total for top 10 tenants		**2,242,662**	**56.84%**
	Sub-total for other tenants		1,702,955	43.16%
	Sub-total for vacant units		N/A	N/A
	Total		**3,945,617**	**100.00%**

Top 10 Tenants' Profile of Fortune Plaza Units (Measured by Rentable Area)



Top 10 Tenants' Profile of Fortune Plaza Units (Measured by Monthly Rental)



City Development Plaza Units—a grade-A commercial building, home of large dometic enterprises

City Development Plaza Units—a grade-A commercial building, home of large enterprises

Location
Nos.185,187 and 189 Ti Yu Xi Road, Tianhe District, Guangzhou, Guangdong Province, the PRC

Year of completion
1997

Percentage of City Development Plaza owned by GZI REIT
57.3%

Gross rentable area
42,397.4 sq.m.

Operating income for the Reporting Year
HK$41.540 million

Valuation[1]
HK$410.222 million

Number of leases[1]
76

Occupancy Rate[1]
96.0%

Note 1: As at 31 December 2006.

Office Building Lobby

Front Door Square

Facilities Conference Room (not owned by GZI REIT)

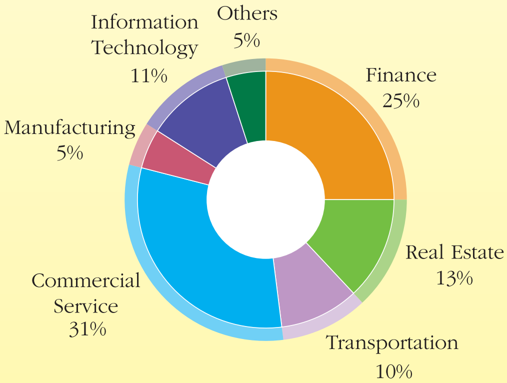
City Development Plaza runs to the west of the axis of new town centre of Guangzhou and is located in the Guangzhou Tianhe central business district, enjoying close proximity about three minutes walk to the Linhe West Station of Metro Line No.3. More than 20 public transport routes lead directly to the plaza in front of the building. It is also adjacent to the Pearl River Delta shuttle bus station and airport express. Guangzhou Railway East Station is just a five minutes car ride.

City Development Plaza opened in 1997 with a total gross floor area of more than 70,000 sq.m., with a 4,000-sq.m. waterscape plaza, a 2,000-sq.m. podium garden, swimming pool, Chinese and western restaurants, multi-functional conference rooms, commercial centre, large-scale underground car park.

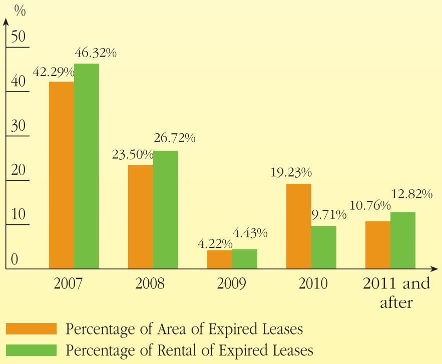
City Development Plaza was recognized by the Ministry of Construction as a "National Model Building for Property Management" in 2000 and won the "Lu Ban Award", the highest award in the quality of engineering and construction in the PRC. Various financial institutions such as banks, securities houses, insurance companies and headquarters of large state-owned enterprises have secured tenancies in it. Major tenants include China Mobile, E Fund, Shenzhen Development Bank and COSCO International Freight. Its strategic geographical location, sound ancillary facilities and excellent services have made City Development Plaza a focus in the business circle of Guangzhou.

The Manager will make every effort to strategically and effectively manage the renewal of leases so as to generate maximum rental income for Unitholders.

Distribution of Industries in which Tenants of City Development Plaza Units are engaged (Measured by Rentable Area)



Lease Expiries of City Development Plaza Units



City Development Plaza Units—a grade-A commercial building, home of large enterprises

Top 10 tenants of City Development Plaza Units

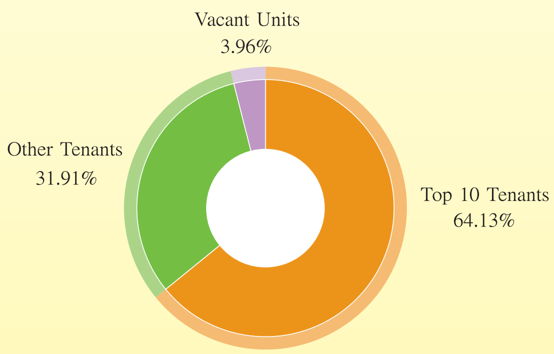
Measured by rentable area

	Name of Tenant	Industry	Rentable Area (sq.m.)	Percentage of Total Gross Rentable Area
1	Guangzhou Wisevalley Development Co., Ltd.	Commercial service	7,830.07	18.47%
2	Efund Management Co., Ltd.	Finance and insurance	4,380.31	10.33%
3	China Mobile Group Guangdong Co., Ltd.	Information technology	3,688.68	8.70%
4	Taikanglife Insurance Co., Ltd. Guangdong Branch	Finance and insurance	3,101.16	7.31%
5	COSCO Guangzhou International Freight Co., Ltd.	Transportation	1,970.79	4.65%
6	Guangzhou City Construction & Development Group	Real estate	1,584.50	3.74%
7	Guangzhou Xingye Real Estate Agent Co., Ltd.	Real estate	1,521.07	3.59%
8	Guangzhou Investment Co., Ltd.	Real estate	1,060.49	2.50%
9	COSCO South-China International Freight Co., Ltd.	Transportation	1,026.26	2.42%
10	廣東潤亞廣告傳播有限公司	Recreation and entertainment	1,026.26	2.42%
	Sub-total for top 10 tenants		**27,189.59**	**64.13%**
	Sub-total for other tenants		13,528.53	31.91%
	Sub-total for vacant units		1,679.24	3.96%
	Total		**42,397.36**	**100.00%**

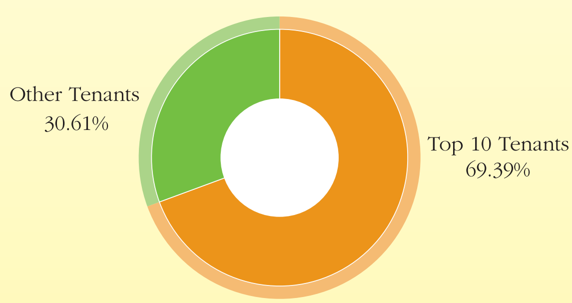
Measured by monthly rental

	Name of Tenant	Industry	Monthly Rental (Rmb)	Percentage of Total Monthly Rental
1	Efund Management Co., Ltd.	Finance and insurance	455,067	13.51%
2	China Mobile Group Guangdong Co., Ltd.	Information technology	405,755	12.05%
3	Guangzhou Wisevalley Development Co., Ltd.	Commercial service	344,523	10.23%
4	Taikanglife Insurance Co., Ltd. Guangdong Branch	Finance and insurance	257,396	7.64%
5	Shenzhen Development Bank Co., Ltd. Guangzhou Branch Yangcheng Sub-Branch	Finance and insurance	232,726	6.91%
6	COSCO Guangzhou International Freight Co., Ltd.	Transportation	192,474	5.72%
7	Guangzhou Xingye Real Estate Agent Co., Ltd.	Real estate	164,288	4.88%
8	COSCO South-China International Freight Co., Ltd.	Transportation	98,459	2.92%
9	Guangzhou Investment Co., Ltd.	Real estate	95,444	2.84%
10	Guangzhou City Construction & Development Group	Real estate	90,522	2.69%
	Sub-total for top 10 tenants		**2,336,654**	**69.39%**
	Sub-total for other tenants		1,030,643	30.61%
	Sub-total for vacant units		N/A	N/A
	Total		**3,367,297**	**100.00%**

Top 10 Tenants' Profile of City Development Plaza Units (Measured by Rentable Area)



Top 10 Tenants' Profile of City Development Plaza Units (Measured by Monthly Rental)



Victory Plaza Units—a metro concept shopping arcade, a diamond in the core business circle

Victory Plaza Units—a metro concept shopping arcade, a diamond in the core business circle

Location
No.101 Ti Yu West Road, Tianhe District, Guangzhou, Guangdong Province, the PRC

Year of completion
2003

Percentage of Victory Plaza (excluding the two office towers under construction) owned by GZI REIT [1]
52.7%

Gross rentable area
27,262.3 sq.m.

Operating income for the Reporting Year
HK$32.415 million

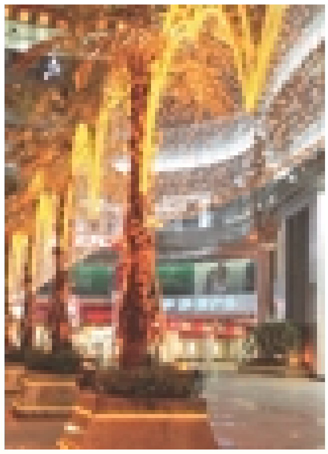
Valuation[2]
HK$551.657 million

Number of leases[2]
16

Occupancy rate[2]
100.0%

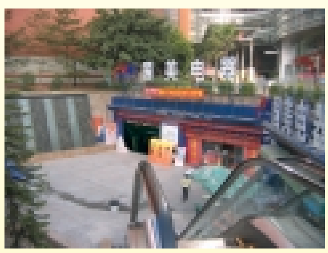
Note 1: Victory Plaza Units represent 52.7% of the total gross floor area of the podium and the four-level underground car park.

Note 2: As at 31 December 2006.



Front Door Square

External Area



Descented Waterscape Plaza

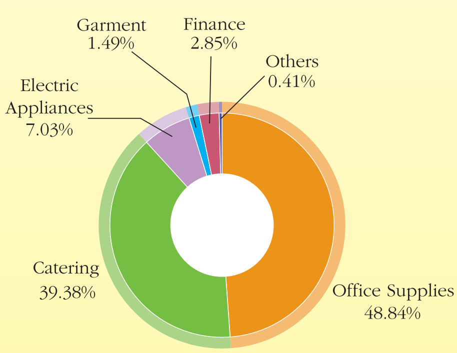
Victory Plaza is located in the busy Tianhe central business district and is adjacent to the Guangzhou Book Centre and, together with Teem Plaza, Grand City Plaza, Grandview Plaza form the new central business circle of Guangzhou. The area surrounding Victory Plaza enjoys convenient transportation with more than 50 public transport routes passing through the area. It is also an interchange of metro lines No.1 and No.3 with heavy pedestrian traffic. The planned metro airport express will soon have a station in this area.

Victory Plaza has a total gross floor area of more than 140,000 sq.m. and comprises two grade-A office towers with 52 and 36 storeys respectively, and a 6-level retail podium. It is a large-scale full facility plaza featuring entertainment, shopping, catering with special features and top-grade offices. The retail podium was opended in 2003. Structural engineering works and curtain wall installation have been completed at the office towers however internal fitting out works are still in progress. The property is expected to be completed in the second half of 2007.

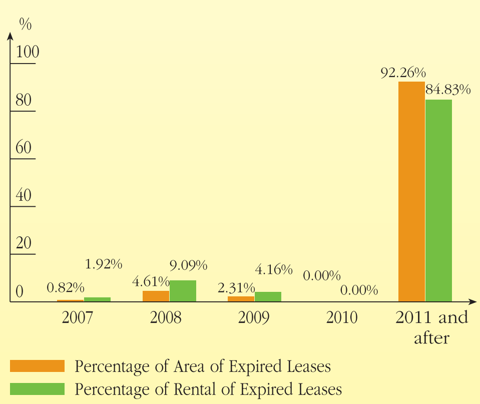
Major tenants of Victory Plaza (podium) include GOME Electrical Appliances, China Merchants Bank and featured restaurants such as Kentucky, Häagen-Dazs, Freezone, 新潮樓 , Hunan Home (佬湘樓) and 食太郎 .

The Manager will make appropriate adjustments to the positioning of the property in accordance with the characteristics of the business circle and focus its efforts on enhancing the tenant base of the property, optimizing the tenant mix and increasing market competitiveness so as to fully realise the property's potential for future development and strive for maximum rental income.

Distribution of Industries in which Tenants of Victory Plaza Units are engaged (Measured by Rentable Area)



Lease expiries of Victory Plaza Units



Victory Plaza Units—a metro concept shopping arcade, a diamond in the core business circle

Top 10 tenants of Victory Plaza Units

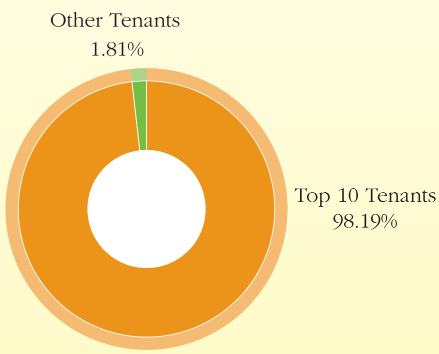
Measured by rentable area

	Name of Tenant	Industry	Rentable Area (sq.m.)	Percentage of Total Gross Rentable Area
1	Guangzhou Friendship Office Products Co., Ltd.	Office supplies	13,320.63	48.86%
2	廣州市天河無國界美食沙龍	Catering	3,017.80	11.07%
3	陳慧儀	Catering	2,773.17	10.17%
4	周彩霞	Catering	1,996.68	7.32%
5	Guangzhou GOME Electrical Appliances Co., Ltd.	Electric appliances	1,917.98	7.04%
6	廣州市佬湘餐飲有限公司	Catering	1,585.42	5.82%
7	Yum! Restaurants (Guangdong) Co., Ltd.	Catering	840.00	3.08%
8	China Merchants Bank Co., Ltd. Guangzhou Branch	Finance and insurance	775.59	2.84%
9	Shanghai Häagen-Dazs Food Co., Ltd.	Catering	318.24	1.17%
10	駱玉要	Garment	222.83	0.82%
	Sub-total for top 10 tenants		**26,768.34**	**98.19%**
	Sub-total for other tenants		493.93	1.81%
	Sub-total for vacant units		0	0%
	Total		**27,262.27**	**100.00%**

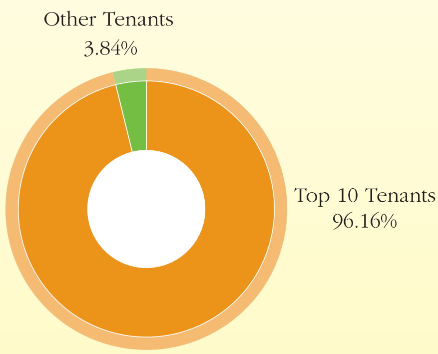
Measured by monthly rental

	Name of Tenant	Industry	Rentable Monthly Rental (Rmb)	Percentage of Total Monthly Rental
1	Guangzhou Friendship Office Products Co., Ltd.	Office supplies	1,181,175	47.40%
2	Guangzhou GOME Electrical Appliances Co., Ltd.	Electric appliances	306,877	12.32%
3	China Merchants Bank Co., Ltd. Guangzhou Branch	Finance and insurance	167,218	6.71%
4	廣州市天河無國界美食沙龍	Catering	157,760	6.33%
5	Yum! Restaurants (Guangdong) Co., Ltd.	Catering	153,700	6.17%
6	陳慧儀	Catering	140,000	5.62%
7	周彩霞	Catering	100,800	4.04%
8	廣州市佬湘餐飲有限公司	Catering	82,880	3.33%
9	Shanghai Häagen-Dazs Food Co., Ltd.	Catering	79,680	3.20%
10	李明光	Garment	25,828	1.04%
	Sub-total for top 10 tenants		**2,395,918**	**96.16%**
	Sub-total for other tenants		95,770	3.84%
	Sub-total for vacant units		N/A	N/A
	Total		**2,491,688**	**100.00%**

Top 10 Tenants' Profile of Victory Plaza Units (Measured by Rentable Area)



Top 10 Tenants' Profile of Victory Plaza Units (Measured by Monthly Rental)



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 year ended 31 December 2006.

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

Hong Kong, 12 April, 2007

Directors' and Senior Executives' Profiles

DIRECTORS

The Directors of the Manager are:

Name	Age	Position
Mr LIANG Ningguang (梁凝光)	53	Chairman and Executive Director
Mr LIU Yongjie (劉永杰)	49	Chief Executive Officer and Executive Director
Mr LIANG Youpan (梁由潘)	51	Non-Executive Director
Mr CHAN Chi On, Derek (陳志安)	43	Independent Non-Executive Director
Mr LEE Kwan Hung, Eddie (李均雄)	41	Independent Non-Executive Director
Mr CHAN Chi Fai, Brian (陳志輝)	52	Independent Non-Executive Director

Chairman

Mr LIANG Ningguang

Mr Liang is the Chairman and an Executive Director of the Manager and 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 company listed on the Stock Exchange) 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 Securities and Futures Ordinance of Hong Kong, Cap 571, ("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, promotional campaigns, asset acquisition and asset enhancement. Mr Liu has more than 12 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.

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 worked for the Stock Exchange. He is an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr Chan has over 16 years of experience in the financial services industry.

Mr LEE Kwan Hung, Eddie

Mr. Lee Kwan Hung , Eddie, aged 41, was appointed an independent non-executive Director on 11 November 2005. He is a partner of Woo, Kwan, Lee & Lo and the chief representative of Woo, Kwan, Lee & Lo’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 is currently a non-executive director of Mirabell International Holdings Limited and GST Holdings Limited and an independent non-executive director of Embry Holdings Limited, the shares of these companies are listed on the Stock Exchange. Besides, Mr. Lee had been an independent non-executive director of each of Seapower Resources International, Magician Industries (Holdings) Limited and China Mining Resources Group Limited (formerly known as Innomaxx Biotechnology Group Limited), the shares of these companies are listed on the Stock Exchange. Save as disclosed, in the three years preceding the Latest Practicable Date, Mr. Lee did not hold any directorship in other listed public companies or any major appointments.

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 companies listed on the Stock Exchange 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 banking 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 each of the three independent non-executive Directors ("INEDs") of the Manager confirming his independence based on the criteria set out in the Compliance Manual and the Manager considered all independent non-executive directors to be independent.

SENIOR EXECUTIVES OF THE MANAGER

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 ("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 participates 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 includes 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.

Mr CAI Xiaoping

Mr Cai is a Deputy Chief Executive Officer of the Manager.

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 was a section member, Head of Finance Section and Manager of Finance Department. During his employment with the bureau, he was 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 on the property industry, covering property appraisal, investment strategy planning, feasibility studies, 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 written 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 number of 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.

Directors' and Senior Executives' Profiles

Ms KO Yung Lai, Jackie

Ms Ko is the Chief Financial Officer of the Manager and is concurrently a Director and Financial Controller of Yue Xiu Securities Co. Ltd. She has spent 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 he has previously worked at multinational corporations. Mr Shiu has been in charge of investor relations services at GZI since 2004.

Mr LIANG Danqing

Mr Liang Danqing heads the Corporate Services team of the Manager. Prior to joining the Manager, Mr Liang was the general manager of GCCD Marketing Center and was responsible for development strategies, marketing and promotional activities. In 2004-2005, the sales volume of the projects under his direction was among the top five of various Guangzhou developers. Mr Liang has remarkable performance in formulating sales strategies for commercial properties. He was in charge of planning and marketing various projects such as Victoria Plaza and Yue Xiu City Plaza. Mr Liang holds a real estate agent's licence of the PRC and has over 10 years of experience in property investment and planning.

Mr Liang graduated from South China University of Technology, majoring in Corporate Management Engineering. He also obtained a Master's degree in Real Estate Administration from the University of Western Sydney.

The Leasing Agents

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 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 Investment Limited ("Partat"), Moon King Limited ("Moon King"), Full Estates Investment Limited ("Full Estates") or, as the case may be, Keen Ocean Limited ("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.

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, approving budgets and reviewing 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 Board 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 ballot. INEDs may serve up to a maximum term 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 term 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.

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 subsequent financial year.

Issues of New 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 the 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. 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 maintains a website containing all important information concerning 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 publication in order to keep Unitholders and the public adequately informed of material price sensitive information relating to the ownership of Units.

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 financial statements of GZI REIT have been audited by PricewaterhouseCoopers. They have been re-appointed for performing the audit for the financial year ending 31 December, 2007.

Connected Party Transactions

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) include, 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 Securities and Futures Ordinance ("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 City Development Plaza Units have been leased to connected persons of GZI REIT which are so connected as a result of their connection with the Manager ("Manager Group"). Details are as follows:

Tenant	Location of unit	Relationship with GZI REIT	GFA (sq.m.)	Lease commencement/ renewal date	Monthly rent (Rmb)	Monthly rent per sq.m. (Rmb)	Rent free period (days)	Term (years)	Rent collected during Reporting Period (HKD)[3]
Yicheng	1st storey	an associate of the Manager	97.0	1 May, 2006	485	5	0	1	5,680
Xingye[1]	1st storey	an associate of the Manager	881.2	1 Jan, 2006	118,955	135	0	3	1,393,052
Xingye[1]	2nd storey	an associate of the Manager	639.92	1 Jan, 2006	45,333	70	0	3	530,883
GZI	16th storey	a significant holder	1,060.5	1 Jan, 2005	95,444	90	0	3	1,117,720
Guangzhou office of Yue Xiu	16th storey	a significant holder	46.1	1 Jan, 2005	4,150	90	0	3	48,599
Manager[2]	8th Storey	Manager	126.5	1 Sept.,2006	11,381	90	0	0.33	44,427
								Total	3,140,361

1 These leases are 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.
2 This lease had been terminated on 31 December 2006, with the relevant unit taken up by an independent third party for a term of 11 months commencing 6 January 2007 at a monthly rent of Rmb 11,760.
3 Conversion from Rmb at the rate of Rmb1.0247 to HKD1.00.

Property Management Agreements

On 7 December, 2005, Partat, a wholly-owned subsidiary of GZI REIT, Guangzhou White Horse Clothings Market Ltd. ("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 Guangzhou City Construction & Development Co. Ltd., a subsidiary of GZI and an associated company of the Manager, have appointedYicheng, 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.

As the tenants of the Properties (and not the Special purpose vehicles (as defined in the Offering Circular ("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.

Connected Party Transactions

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 have agreed to provide leasing, marketing and tenancy services to each of the SPVs holding the relevant 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 Reporting Period, the aggregate amount of fees paid/payable by GZI REIT to Yicheng and White Horse Property Management Company under these tenancy services agreements totalled approximately HK$12,279,000.

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 until 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. Each of these licence agreements has been extended, for a nominal fee of Rmb 1.00, for a period of between 9 to 10 years and will expire between 27 November 2016 and 30 January 2017.

Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") and the Manager entered into a licence agreement dated 7 December, 2005 pursuant to which Yue Xiu granted to the Manager 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 approximately 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, has been granted by the SFC on 8 December, 2005, subject to annual limitations as to value such transactions can amount to, review by the auditors for each relevant financial period, annual review by the Audit Committee and the INEDs and other terms and conditions ("Waiver"). Particulars of the Waiver and its detailed terms and conditions have been published in the Offering Circular.

Renovation of Levels 8 and 9 of White Horse Units

The contractor for carrying out the renovation works of Levels 8 and 9 of the White Horse Units, for the purpose of transforming them into wholesale and retail premises, was selected through a transparent tender process, arranged by Guangzhou Construction Works Dealing Centre (廣州建設工程交易中心), a government body responsible for the management and supervision of all tenders for building and construction works within Guangzhou required to be carried out under "廣東省建設工程招標投標管理條例". Guangzhou City Construction & Development Decoration Limited ("GCCD Decoration"), a 98.62% indirectly-owned subsidiary of GZI and one of the 5 bidders for the renovation works, was awarded the renovation contract by Guangzhou Construction Works Dealing Centre on 24 January, 2006.

GCCD Decoration, in its capacity as a main contractor, sub-contracted part of the renovation works to two independent third party sub-contractors pursuant to two separate sub-contracts both dated 26 January, 2006. By another two separate agreements entered into between GCCD Decoration, Partat and each of the two sub-contractors both dated 28 January, 2006 (as supplemented and amended by two separate confirmations entered into between the same parties both dated 24 August, 2006), GCCD Decoration's rights and obligations (including, payment obligations) under the sub-contracts were assigned to Partat, subject to the terms and conditions set out in the respective confirmations. Accordingly, the amount payable by Partat to GCCD Decoration pursuant to the terms of the renovation contract dated 26 January, 2006 was reduced to Rmb 414,148.08 (i.e., approximately HK$404,165.00), representing the difference between the total amount of all renovation works (i.e., Rmb 5,176,851.05 (i.e., approximately HK$5,052,065.00)) and the sums directly payable by Partat to the two sub-contractors (i.e. Rmb 4,762,702.97 (i.e., approximately HK$4,647,900.00) in aggregate).

GCCD Decoration and its associates (as defined in the REIT Code) had not entered into any other connected transactions with GZI REIT. The amount payable by Partat to GCCD Decoration under the renovation contract is less than 5% of the net asset value of GZI REIT as per the audited financial statements published in the 2005 annual report. The amount is also less than 15% of the amount of HK$26.70 million committed to be spent by GZI REIT on renovation and upkeep of the White Horse Units (as disclosed in the Offering Circular). Accordingly, no Unitholders' approval was required for entering into the transaction.

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)).

Connected Party Transactions

Leasing Transactions

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

Tenant	Location of Unit	GFA (sq.m.)	Lease commencement date	Monthly rent (Rmb)	Monthly rent per sq.m. (Rmb)	Rent free period (days)	Term (years)	Rent collected during Reporting Period (HKD)[1]
HSBC Software	4th storey	4,275.1	16 Feb, 2005	354,833	83	60	3	4,007,905
Development	5th storey	4,275.1	1 May, 2005	354,833	83	90	2.25	4,007,905
(Guangdong) Limited	3rd storey	2,000	1 Dec, 2006	166,000	83	60	4.2	170,547
							Total:	8,186,357

1 Conversion from Rmb at the rate of Rmb1.0247 to HKD1.00.

On 31 January, 2007 HSBC Software Development (Guangdong) Limited entered into a lease with Moon King. In respect of the 4th and 5th storeys of Fortune Plaza renewing the existing term for another 3 years commencing 1 February, 2008 at a monthly rent of Rmb 745,150 for the first year, RMB782,428 for the second year and 821,504 for the third year.

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 US$63.9 million remained outstanding as at 31 December, 2006.

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 Reporting Year, interest under the facility agreement in the amount of approximately HK$16,334,000 were payable by GZI REIT to HSBC.

Ordinary Banking Services

REIT Holdco, Partat, Keen Ocean, Full Estates and Moon King have maintained interest bearing accounts with HSBC for deposits during the Reporting Year 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.

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 Reporting Year.

Manager's Fees

During the Reporting Year, the aggregate amount of fees payable by GZI REIT to the Manager under the Trust Deed was approximately HK$23,765,000.

Trustee's Fees

During the Reporting Year, the aggregate amount of fees payable by GZI REIT to the Trustee under the Trust Deed was approximately HK$1,403,000.

Principal Valuer's Fees

During the Reporting Year, the aggregate amount of fees payable by GZI REIT to the Valuer for the preparation of a valuation report of the Properties was HK$153,000.

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 1 January, 2006 Beneficial interests in Units	As at 1 January, 2006 Approximate % of interest	As at 31 December, 2006 Beneficial interests in Units	As at 31 December, 2006 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 1 January, 2006 Interests in Units	As at 1 January, 2006 Approximate % of interest	As at 31 December, 2006 Interests in Units	As at 31 December, 2006 Approximate % of interest	% Change of interest
Yue Xiu[1]	Beneficial	27,320	0%	27,320	0%	—
	Deemed	408,776,760	40.88%	321,326,760	32.13%	-8.74%
	Total	408,804,080	40.88%	321,354,080	32.14%	-8.74%
GZI[2]	Beneficial	—	—	—	—	
	Deemed	400,730,495	40.07%	313,280,495	31.32%	-8.75%
	Total	400,730,495	40.07%	313,280,495	31.32%	-8.75%
Dragon Yield Holdings Limited ("Dragon Yield")	Beneficial	400,730,495	40.07%	313,280,495	31.32%	-8.75%
	Deemed	—	—	—	—	
	Total	400,730,495	40.07%	313,280,495	31.32%	-8.75%

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	100.0	N	321,215,530	Nil
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	N	313,280,495	Nil
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	Y	5,698,282	—
Guangzhou Investment Company Limited	Bosworth International Limited	34.98	N	313,280,495	Nil
Dragon Yield	GZI	100.0	Y	313,280,495	Nil
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	—
Morrison Pacific Limited	Shine Wah Worldwide Limited	100.0	Y	395,122	—
Perfect Goal Development Co., Ltd.	Excellence Enterprises Co., Ltd	100.0	N	339,342	—
Greenwood Pacific Limited	Perfect Goal Development	100.0	Y	339,342	—
Seaport Development Limited	Excellence Enterprises Co., Ltd.	100.0	N	88,082	—
Goldstock International Limited	Seaport Development Limited	100.0	Y	88,082	—
Yue Xiu Finance Company Limited	Yue Xiu	100.0	Y	111,230	—

2. The deemed interest in 313,280,495 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 1 January, 2006 Number of Units	Approximate % of interest	As at 31 December, 2006 Number of Units	Approximate % of interest	% Change of interest
Yue Xiu[1]	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
GZI[1]	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
Dragon Yield	Beneficial	87,450,000	8.75%	Nil	Nil	-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 initial public offering of GZI REIT ("IPO") which was exercised in full on 4 January, 2006.

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 1 January, 2006 Interests in Units	Approximate % of interest	As at 31 December, 2006 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 persons (as defined under the REIT Code) of GZI REIT, held the following interests in Unit

Short Position and Long Postion in Units*

		As at 1 January, 2006		As at 31 December, 2006		
Name of HSBC entity	**Nature of interest**	**Interest in Units**	**Approximate % of interest**	**Interest in Units**	**Approximate % of interest**	**% change of interest**
HSBC Holdings Plc**	Beneficial	87,450,000	8.75%	Nil	Nil	-8.75%
	Deemed	—	—	—	—	—
	Total	87,450,000	8.75%	Nil	Nil	-8.75%
HSBC Finance (Netherlands)**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
	Total	87,450,000	8.75%	Nil	Nil	-8.75%
HSBC Holdings BV**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
	Total	87,450,000	8.75%	Nil	Nil	-8.75%
HSBC Asia Holdings (UK)**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
	Total	87,450,000	8.75%	Nil	Nil	-8.75%
HSBC Asia Holdings BV**	Beneficial	—	—	—	—	—
	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
	Total	87,450,000	8.75%	Nil	Nil	-8.75%
The Hongkong and Shanghai	Beneficial	—	—	—	—	—
Banking Corporation	Deemed	87,450,000	8.75%	Nil	Nil	-8.75%
Limited**	Total	87,450,000	8.75%	Nil	Nil	-8.75%

* This relates to over allocation option granted to Joint Global Coordinator pursuant to international underwriting agreement in relation to the IPO. The Hongkong and Shanghai Banking Corporation Limited was one of the Joint Global Coordinators. The over-allocation option was exercised in full on 4 January, 2006.

** 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, 2006.

Unit Options

At no time during the Reporting 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.

COLLIERS
INTERNATIONAL

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12 April, 2007

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, 2006 (the "Date of Valuation").

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

		Market Value as at 31 December 2006 *RMB*	Market Value as at 31 December 2006 *HK$*
1.	White Horse Building	2,709,000,000	2,696,327,000
2.	Fortune Plaza	584,600,000	581,865,000
3.	City Development Plaza	412,150,000	410,222,000
4.	Victory Plaza	554,250,000	551,657,000
	Total:	**4,260,000,000**	**4,240,071,000**

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 18 years experience in the valuation of properties in the PRC and 22 years of property valuation experience in Hong Kong and the Asia Pacific region.

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 26 years experience in the valuation of properties of this magnitude and nature, and over 18 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 February 2007. 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 values 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 Subject 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.

3.2 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.

3. VALUATION RATIONALE *(Continued)*

3.2 Discounted Cash Flow Analysis *(Continued)*

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 Renminbi (RMB). For reference purposes, we have also prepared the summary of values in Hong Kong Dollars in the cover letter. The exchange rate adopted as at the Date of Valuation was HK$1 = RMB1.0047. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this report.

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.

6. CAVEATS AND ASSUMPTION *(Continued)*

(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 "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 PROPERTY

According to the information provided by the Manager, 9 Building Ownership Certificates have been issued in respect of the Property. The details of the 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 Property
5.	Property Description	:	The 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 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 storey 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 PROPERTY *(Continued)*

8.	Usage	:	Lower Ground Level - Storage Level 1 - Commercial Level 2 - Commercial Level 3 - Commercial Level 4 - Commercial Level 5 - Commercial Level 6 - Commercial Level 7 - Commercial Level 8 - Commercial
9.	Internal Floor Area of the Property	:	48,100.6 sq.m.
10.	Gross Rentable Area of the Property	:	50,128.9 sq.m.
11.	Construction Completion Date	:	1990 with extension and renovation thereafter between 1995 and 1997 as well of White Horse Building as between 1998 and 2000
12.	Market Value in existing state as at the Date of Valuation	:	RMB2,709,000,000
13.	Net Passing Income as at the Date of Valuation	:	RMB21,315,846 per month
14.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11.0%
15.	Term Yield	:	8.5%
16.	Reversionary Yield	:	9.5%
17.	Occupancy Rate as at the Date of Valuation	:	99.8%
18.	Vacancy Allowance	:	1.0%
19.	Estimated Current Net Yield	:	9.4%
20.	Remarks:	:	The property is subject to a mortgage.

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 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 Property.

3. THE 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 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, bus terminal and No.2 Metro Line.

The 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 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 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, buses and No. 2 Metro Line are available along Zhan Nan Road. Bus stops are located at 2 minutes walking distance from White Horse Building.

3.4 Car Accessibility and Road Frontage

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

3. THE PROPERTY *(Continued)*

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 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 gross floor area of 61,703.0 sq.m.

The floor 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	7,695.6
Level 5	Commercial	7,466.4
Level 6	Commercial	7,443.9
Level 7	Commercial	2,003.5
Level 8	Commercial	1,916.5
	Total:	61,703.0

The site of the wholesale centre comprises a regular and level plot with its main frontage on Zhan Nan Road. White Horse Building was first completed in 1990 and then underwent two separate phase extensions 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 which is a main roadway.

Car parking facilities are located on basement level 1.

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

3. THE 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	7,695.6	7,370.0
Level 5	Commercial	7,466.4	7,149.2
Level 6	Commercial	7,443.9	7,127.5
Level 7	Commercial	2,003.5	1,931.0
Level 8	Commercial	1,916.5	1,847.2
	Total:	50,199.3	48,100.6

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

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, 2 passenger lifts and 1 cargo lift serving Levels 7 to 8, 12 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 with its age.

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

3. THE PROPERTY *(Continued)*

3.8 Current Rental Income

As at the Date of Valuation, about 0.2% of the 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:

Leased Gross Floor Area *(sq.m.)*	Monthly Net Rental Income *(RMB)*	Annual Net Rental Income *(RMB)*
50,020.97	21,315,846	255,790,152

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.

The Property comprises various tenants from various industries such as a bank, food & restaurants, garment, etc.

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

3.9 Occupancy Rate

According to the information provided by the Manager, the Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of 99.8% of the Property held by GZI REIT. The Property is occupied by various tenants such as the Bank of Communication, Guangzhou Branch and various other individual tenants.

3. THE PROPERTY *(Continued)*

3.10 Lease Cycle Duration and Expiry Profile

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

The details of the duration lease terms are shown below:

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Area** *(%)*
0	2	2.8
2	4	89.7
4	6	7.5
		100.0

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

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

% of tenancies due to expire in each year	**By Area** *(%)*
2009	29.7
2010 and beyond	70.3
	100.0

3.11 Summary of Material Rent Review Provisions

We understand that the Property has no 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.

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

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

3. THE PROPERTY *(Continued)*

3.12 Historic Outgoings

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

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 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 Property under the property management agreement.

3.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

4. VALUATION

4.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the 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 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.

As advised by the Manager, improvement works for Levels 8 and 9 of the Property have been completed. Since 16 April 2006, these 2 levels were occupied for retail/office uses (originally used as warehouses and offices).

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 8.5% and reversionary yield is 9.5%. The term yield adopted is lower than the market yield because the current passing rental income of the Property is lower than the estimated current market rental income.

4. VALUATION *(Continued)*

4.2 Discounted Cash Flow Analysis

For the 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 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 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 for 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.

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 Property, are covered by the management fees paid by tenants.

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

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

Items	**Percent**
Terminal Capitalisation Rate	9.0%
Discount Rate	11.0%
Growth Rate - Year 1	0.0%
Growth Rate - Year 2	0.0%
Growth Rate - Year 3	0.0%
Growth Rate - Year 4	0.0%
Growth Rate - Year 5	5.0%
Growth Rate - Years 6 to 10	5.0%
Vacancy loss	1.0%
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.

4. VALUATION *(Continued)*

4.2 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	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** *(RMB)*
Income Capitalisation	2,724,000,000
Discounted Cash Flow	2,694,000,000

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 Property in its existing state as at the Date of Valuation was RENMINBI TWO THOUSAND SEVEN HUNDRED AND NINE MILLION ONLY (RMB2,709,000,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of values derived using by the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Part B - Fortune Plaza

Valuation of various units of the Property (the "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 PROPERTY

According to the information provided by the Manager, 83 Building Ownership Certificates have been issued in respect of the Property. The details of the 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 Property.
5.	Property Description	:	The Property comprises a portion of a 6-storey commercial podium and two office towers erected above it.
6.	Gross Floor Area ("GFA") of the 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 Property	:	30,752.3 sq.m.
10.	Gross Rentable Area of the 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	:	RMB584,600,000
13.	Net Passing Income as at the Date of Valuation	:	RMB4,182,353 per month

1. SUMMARY OF THE PROPERTY *(Continued)*

14.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11.5%
15.	Term Yield	:	Office: 7.5% Retail: 9.5%
16.	Reversionary Yield	:	Office: 9.0% Retail: 11.5%
17.	Occupancy Rate as at the Date of Valuation	:	99.5%
18.	Vacancy Allowance	:	Office: 5.0% Retail: 1.0%
19.	Estimated Current Net Yield	:	8.6%
20.	Remarks:	:	The property is subject to a mortgage.

2. THE 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 in close proximity to the Guangzhou East Train Station and Metro Station with interchange of Nos. 1 and 3 Metro Line.

Tian He District is a rapidly developing area in Guangzhou and is the present focus of new Grade A office developments. 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, with new developments initially located near the central square but gradually expanding outwards from it.

2.2 Surrounding Development and Environmental Issues

The 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 flow along the section of where the Property is located 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 areas. Due to the land registration system in the PRC, we cannot trace any information regarding previous developments 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 PROPERTY *(Continued)*

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, a major roadway in Guangzhou. Bus stops and a 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 Property allows access to the 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 gross floor area of 80,419.1 sq.m.

The floor 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

The site of the building comprises a regular and level plot with its main frontage on Ti Yu Dong Road upon which a 6-storey commercial podium with two office towers have been erected and were 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 on Ti Yu Dong Road. General accessibility of Fortune Plaza is good as public transportation such as the metro system, buses and taxis are available along Ti Yu Dong Road which is a main roadway in Guangzhou.

Car parking facilities are provided by 2 basement level carparks 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. THE 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:

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. 118, 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 805	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
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 1306	Office	191.7	122.9
29.	No. 116, Unit 1305	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

2. THE 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.)*
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		1,392.2	1,029.3
48.	No. 116, Level 37	Office	302.2	181.0
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

2. THE 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.)*
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	Office	335.8	180.4
		Total	40,356.2	30,752.3

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 in the main lobby. The specification of the building includes central air-conditioning system. Main services of the building comprise electricity, water and telecommunications.

The building is subdivided into various units on all levels and is served by 10 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 with its age.

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

2. THE PROPERTY *(Continued)*

2.8 Current Rental Income

As at the Date of Valuation, about 0.5% of the 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:

Leased Gross Floor Area (sq.m.)	**Monthly Net Rental Income** (RMB)	**Annual Net Rental Income** (RMB)
40,143.0	4,182,353	50,188,236

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

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

2.9 Occupancy Rate

According to the information provided by the Manager, most of the Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of about 99.5% of the Property held by GZI REIT. Existing tenants include HSBC, 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 commercial terms.

The details of the lease term duration are shown belows:

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Area** *(%)*
0	2	8.2
2	4	73.5
4	6	17.2
6	8	1.1
		100.0

2. THE PROPERTY *(Continued)*

2.10 Lease Cycle Duration and Expiry Profile *(Continued)*

The details of the lease expiry profile are shown below:

% of tenancies due to expire in each year	**By Area** *(%)*
Year	
2007	31.7
2008	47.5
2009	8.0
2010 and beyond	12.8
	100.0

2.11 Summary of Material Rent Review Provisions

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

We are not aware of any material options or rights of pre-emption which may affect the value of the 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 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% of the gross revenue per annum ("Service Fees") receivable by the Property Company from the operation of the 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 Property under the property management agreement.

2.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

3. VALUATION

3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the 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 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 transactions available to us, we have analysed transactions from a variety of similar types of buildings in the locality.

In our assessment, the term yields adopted are 9.5% for the retail component and 7.5% for the office component. The term yields adopted are lower than the market yields because the current passing rental income of the 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 the retail and office components of the Property, with a higher yield for the retail component to reflect the perceived higher levels of risk associated with the retail property market in Guangzhou which is less mature and more volatile compared to the office market.

3.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate for office portion within our calculation is 8.0% 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 11.5% for the 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, 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

We have estimated the rental income growth per annum during next 10 years for the 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.

No deduction has been made for the expected cost for small scale, routine repairs and maintenance as we understand from the Manager that such small scale, routine repair and maintenance costs, for maintaining the current condition of the 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 Property using the following assumptions:

Property	**Office Portion**	**Retail Portion**
Terminal Capitalisation Rate	8.0%	9.5%
Discount Rate	11.5%	11.5%
Growth Rate - Year 1	1.0%	5.0%
Growth Rate - Year 2	1.0%	5.0%
Growth Rate - Year 3	1.0%	5.0%
Growth Rate - Year 4	1.0%	5.0%
Growth Rate - Year 5	1.0%	5.0%
Growth Rate - Years 6 to 10	3.0%	5.0%
Vacancy loss	5.0%	1.0%
Bad Debts	1.0%	1.0%

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	4.0% of gross rental income
Cost of Large Scale Repair and Maintenance as advised by the Manager	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 *(RMB)*
Income Capitalisation	607,200,000
Discounted Cash Flow	562,000,000

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 Property in its existing state as at the Date of Valuation was RENMINBI FIVE HUNDRED EIGHTY-FOUR MILLION AND SIX HUNDRED THOUSAND ONLY (RMB584,600,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of the values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Valuation of various units of the property (the "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 PROPERTY

According to the information provided by the Manager, 165 Building Ownership Certificates have been issued in respect of the Property. The details of the 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 Property
5.	Property Description	:	The Property forms a portion of a 28-storey Grade A commercial building.
6.	Gross Floor Area ("GFA") of the 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 Property	:	30,752.3 sq.m.
10.	Gross Rentable Area of the Property	:	42,397.4 sq.m.
11.	Construction Completion Date of Fortune Plaza	:	1997
12.	Market Value in existing state as at the Date of Valuation	:	RMB412,150,000
13.	Net Passing Income as at the Date of Valuation	:	RMB3,548,599 per month
14.	Discount Rate adopted for Discounted CashFlow Analysis only	:	11.0%

1. SUMMARY OF THE PROPERTY *(Continued)*

15.	Term Yield	:	Office: 9.0% Retail: 11.0%
16.	Reversionary Yield	:	Office: 9.5% Retail: 12.0%
17.	Occupancy Rate as at the Date of Valuation	:	96.0%
18.	Vacancy Allowance	:	Office: 4.0% Retail: 2.0%
19.	Estimated Current Net Yield	:	10.3%
20.	Remarks:	:	The property is subject to a mortgage.

2. THE 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. The Property is in close proximity to the Guangzhou East Train Station and Lin He Xi Zhan Metro Station (about 3 minutes walk from the Property). 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 developments. 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, with new developments initially located near the central square but gradually expanding outwards from it.

2.2 Surrounding Development and Environmental Issues

The 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 in the quieter 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 previous developments 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 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, buses and Nos. 1 and 3 Metro Line are available along Ti Yu Xi Road. Bus stops are located at 2 minutes walk from City Development Plaza.

2.4 Car Accessibility and Road Frontage

City Development Plaza is directly accessible from Ti Yu Xi Road which is a major roadway.

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 areas from Levels 6 to 28. According to the information provided by the Manager, the development has a gross floor area of approximately 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 with its main frontage on 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's facilities include an exclusive clubhouse, restaurants, a conference centre and car parking spaces.

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

2. THE 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:

Property	**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	

2.7 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 of the building is generally decorated with carpeted floors or homogenous floor tile, wallpaper and false ceilings.

The retail podium is served by 2 passenger lifts, 10 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 with its age.

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

2. THE PROPERTY *(Continued)*

2.8 Current Rental Income

As at the Date of Valuation, about 4.0% of the 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:

Leased Gross Floor Area *(sq.m.)*	Monthly Net Rental Income *(RMB)*	Annual Net Rental Income *(RMB)*
40,718.1	3,548,599	42,583,188

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 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 Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of about 96.0% of the Property held by GZI REIT. The Property is occupied by various tenants such as Taikang Life Insurance Co. Ltd., Shenzhen Development Bank, AXA-Minmetals Assurance Co. Ltd. Guangzhou Branch and Guangdong Mobile Communication 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 belows:

Lease term greater than *(year)*	Lease term less than or equal to *(year)*	By Area *(%)*
0	2	29.0
2	4	36.0
4	6	15.3
6	8	0.5
8	10	19.2
		100.0

2. THE PROPERTY *(Continued)*

2.10 Lease Cycle Duration and Expiry Profile

The details of the lease expiry profile are shown belows:

% of tenancies due to expire in each year	**By Area** *(%)*
2007	42.3
2008	23.5
2009	4.2
2010 and beyond	30.0
	100.0

2.11 Summary of Material Rent Review Provisions

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

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

2.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

3. VALUATION

3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the 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 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 11.0% for the retail component and 9.0% for the office component. The term yields adopted are lower than the market yields derived below because the current passing rental income of the Property is lower than the estimated current market rental income. The reversionary yields adopted are 12.0% for the retail component and 9.5% for the office component. We have applied individual yields to the retail and office components of the 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.

3.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate for office portion within our calculation is 8.0% and the terminal capitalisation rate for retail portion is 10.0%. 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 11.0% for the 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.

3. VALUATION *(Continued)*

3.2 Discounted Cash Flow Analysis *(Continued)*

We have estimated that the rental income growth per annum during next 10 years for the 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.

No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that such small scale, routine repair and maintenance costs, for maintaining the current condition of the 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 Property using the following assumptions:

Property	**Office Portion**	**Retail Portion**
Terminal Capitalisation Rate	8.0%	10.0%
Discount Rate	11.0%	11.0%
Growth Rate - Year 1	0.0%	0.0%
Growth Rate - Year 2	0.0%	0.0%
Growth Rate - Year 3	0.0%	0.0%
Growth Rate - Year 4	0.0%	0.0%
Growth Rate - Year 5	2.0%	2.0%
Growth Rate - Years 6 to 10	2.0%	2.0%
Vacancy loss	4.0%	2.0%
Bad Debts	1.0%	1.0%

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	4.0% of gross rental income
Cost of Large Scale Repair and Maintenance as advised by the Manager	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 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** *(RMB)*
Income Capitalisation	431,900,000
Discounted Cash Flow	392,400,000

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 Property in its existing state as at the Date of Valuation was RENMINBI FOUR HUNDRED TWELVE MILLION ONE HUNDRED AND FIFTY THOUSAND ONLY (RMB412,150,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the 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 "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 PROPERTY

According to the information provided by the Manager, 9 Building Ownership Certificates have been issued in respect of the Property. The details of the 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 Property
5.	Property Description	:	The Property comprises a portion of a 6-storey retail shopping centre with 1 basement level.
6.	Gross Floor Area ("GFA") of the 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 Property	:	22,847.9 sq.m.

1. SUMMARY OF THE PROPERTY *(Continued)*

10.	Gross Rentable Area of the Property	:	27,262.3 sq.m.
11.	Construction Completion Date of Fortune Plaza	:	2003
12.	Market Value in existing state as at the Date of Valuation	:	RMB554,250,000
13.	Net Passing Income as at the Date of Valuation	:	RMB2,429,482
14.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	10.5%
15.	Term Yield	:	8.0%
16.	Reversionary Yield	:	9.0%
17.	Occupancy Rate as at the Date of Valuation	:	100.0%
18.	Vacancy Allowance	:	1.0%
19.	Estimated Current Net Yield	:	5.3%
20.	Remarks:	:	The property is subject to a mortgage.

2. THE 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, 52 and 36 storey high, will be completed in the second half of 2007.

Victory Plaza is located at the junction of Tian He Road and Ti Yu Xi Roa, and the intersection of Nos. 1 and 3 Metro Line. It is in close proximity to the Guangzhou Book Centre and 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 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 in the quieter 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 previous developments 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 good as public transportation such as taxis and buses are available along Ti Yu Xi Road. Bus stops are located within a 2 minutes walk from Victory Plaza.

Victory Plaza is located within an approximately 3 minutes walk from Ti Yu Xi Road Station on the No. 1 Metro Line. Nos. 1 and 3 Metro Line 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 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, 52 and 36 storeys high, are scheduled to be completed by the end of 2007. The two new office towers will add an estimated floor area of 58,823.0 sq.m. and 30,772.0 sq.m. 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 with its main frontage on 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 on 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 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:

Property	**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, 20 escalators serving from the basement to Level 6.

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 with its age.

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

2. THE PROPERTY *(Continued)*

2.8 Current Rental Income

As at the Date of Valuation, the 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:

Leased Gross Floor Area *(sq.m.)*	Monthly Net Rental Income *(RMB)*	Annual Net Rental Income *(RMB)*
23,390.0	2,429,482	29,153,784

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 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 Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of 100% of the Property held by GZI REIT. The Property is occupied by various tenants such as 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 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 belows:

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Area** *(%)*
0	2	0.2
2	4	47.6
4	6	6.9
6	8	18.9
8	11	26.4
		100.0

The details of the lease expiry profile are shown belows:

% of tenancies due to expire in each year	**By Area** *(%)*
2007	0.8
2008	4.6
2009	2.3
2010 and beyond	92.3
	100.0

2.11 Summary of Material Rent Review Provisions

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

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

2. THE 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 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 Property under the property management agreement.

2.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

3. VALUATION

3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the 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 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.

In our assessment, the term yield and reversionary yield adopted are 8.0% and 9.0% respectively. The term yield adopted is lower than the market yield derived below because the current passing rental income of the Property is lower than the estimated current market rental income.

3. VALUATION *(Continued)*

3.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate adopted within our calculation is 9.0%. 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 10.5% for the 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 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.

No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that such small scale, routine repair and maintenance costs, for maintaining the current condition of the 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 Property using the following assumptions:

Items	**Percent**
Terminal Capitalisation Rate	9.0%
Discount Rate	11.0%
Growth Rate - Year 1	0.0%
Growth Rate - Year 2	6.0%
Growth Rate - Year 3	6.0%
Growth Rate - Year 4	6.0%
Growth Rate - Year 5	8.0%
Growth Rate - Years 6 to 10	8.0%
Vacancy loss	1.0%
Bad Debts	1.0%

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	4.0% of gross rental income
Cost of Large Scale Repair and Maintenance as advised by the Manager	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 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 *(RMB)*
Income Capitalisation	521,100,000
Discounted Cash Flow	587,400,000

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 Property in its existing state as at the Date of Valuation was RENMINBI FIVE HUNDRED FIFTY-FOUR MILLION TWO HUNDRED AND FIFTY THOUSAND ONLY (RMB554,250,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Overview of Office and Retail Market in Guangzhou City

OFFICE

Major offices originally targeted for completion in 2006 such as Teem Tower, China International Center and Poly International Tower, have been postponed until next year. Over 700,000 sq.m. of Grade A office spaces is scheduled for completion by next year, including some premium Grade A offices like R&F Centre, IFP and Teem Tower which will offer a wide variety of options for those international tenants looking for high quality office.

Due to the lack of new supply in the market, the demand for Grade A office still remains strong which has led to the downward adjustment of the overall vacancy rate to 9.21% in 4Q 2006. The tight supply situation has resulted in the increase of rentals and prices in 2006.

With a large number of high quality Grade A offices coming to the market, this will attract more international tenants in 2007 such as foreign capital banks, agency and consultation organizations. Thus, rentals and capital values are expected to rise approximately 5% to 10%.

RETAIL

Major prime shopping areas are situated in the Yue Xiu District, Tian He District and Li Wan District. These three areas accounted for majority portion of the total stock in the city. The majority of retail developments in Guangzhou City are shopping centres. In the past 10 years, the growth in the development of shopping malls and hypermarkets has increased rapidly.

Strong retail sales in 2006 have attracted many retailers to set up and expand in Guangzhou City. The overall vacancy rate for the major retail locations in Guangzhou City averaged 15% as at the end of 2006. We expect that the demand for retail space in the city will strengthen further in the short to medium term due to the short of supply in the prime locations. Going forward, the rentals and capitals are expected to rise gradually.

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 consolidated financial statements of GZI Real Estate Investment Trust ("GZI REIT") and its subsidiaries (together the "Group") set out on pages 110 to 141, which comprise the consolidated and GZI REIT balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Manager of GZI REIT are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the trust deed dated 7 December 2005 ("the Trust Deed"), 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager of GZI REIT, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of GZI REIT and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed, 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, 12 April 2007

Consolidated Balance Sheet

As at 31 December, 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	5	**9,775**	3,395
Investment properties	6	**4,240,071**	4,053,800
Deferred assets	8	**9,610**	5,637
Goodwill	9	**158,290**	152,917
		4,417,746	4,215,749
Current assets			
Rental receivables	10	**19**	320
Prepayments, deposits and other receivables	10	**5,829**	4,478
Cash and cash equivalents	11	**253,846**	235,917
Due from related companies	23	**—**	9,810
		259,694	250,525
Total assets		**4,677,440**	4,466,274
Current liabilities			
Rental deposits, current portion	13	**9,919**	6,138
Receipts in advance	13	**12,721**	21,842
Accruals and other payables	13	**23,939**	10,580
Due to related companies	23	**22,144**	81,658
		68,723	120,218
Non-current liabilities, other than net assets attributable to Unitholders			
Rental deposits, non-current portion	13	**64,963**	63,695
Bank borrowings, secured	15	**1,266,469**	1,255,216
Derivative financial instruments	14	**77,578**	11,231
		1,409,010	1,330,142
Total liabilities, other than net assets attributable to Unitholders		**1,477,733**	1,450,360
Net assets attributable to Unitholders	16	**3,199,707**	3,015,914
Total liabilities		**4,677,440**	4,466,274
Net asset		**—**	—
Equity			
Hedging reserve	12	**(35,608)**	(11,281)
Retained earnings		**35,608**	11,281
Total equity		**—**	—
Units in issue ('000)		**1,000,000**	1,000,000
Net assets attributable to Unitholders per Unit		**HK$3.200**	HK$3.016

The notes on pages 116 to 141 are an integral part of these financial statements.

On behalf of the Board of Directors of
GZI REIT Asset Management Limited
as the manager of GZI REIT

Liang Ningguang
Director

Liu Yongjie
Director

Balance Sheet

As at 31 December, 2006

	Note	**2006**	2005
		HK$'000	HK$'000
Non-current asset			
Investment in a subsidiary	7	**2,986,652**	2,986,652
Net asset		**2,986,652**	2,986,652

The notes on pages 116 to 141 are an integral part of these financial statements.

On behalf of the Board of Directors of
GZI REIT Asset Management Limited
as the manager of GZI REIT

Liang Ningguang
Director

Liu Yongjie
Director

Consolidated Income Statement

For the year ended 31 December, 2006

	Note	For the year ended 31 December 2006 HK$'000	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Revenue - rental income		**369,475**	6,835
Operating expenses	17	**(118,131)**	(5,981)
Operating profit		**251,344**	854
Interest income from bank deposits		**5,696**	41,209
Fair value gain on investment properties		**37,753**	—
Finance costs - excluding net assets attributable to Unitholders	19	**(50,357)**	(1,520)
Profit before tax and transactions with Unitholders		**244,436**	40,543
Income tax expenses	20	**—**	—
Profit after tax before transactions with Unitholders		**244,436**	40,543
Finance cost attributable to Unitholders	16	**(220,109)**	(29,262)
Result for the year/period (i)		**24,327**	11,281

Notes:

(i) In accordance with the Trust Deed dated 7 December 2005 (the "Trust Deed"), GZI REIT is required to distribute to Unitholders not less than 90% distributable income for each financial period. GZI REIT has a limited life of 80 years from the date of establishment. Accordingly, the Units contain contractual obligations to pay cash dividends and, upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of GZI REIT less any liabilities, in accordance with Unitholders' proportionate interests in GZI REIT at the date of the termination of GZI REIT. The Unitholders' funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32: Financial Instruments: Disclosure and Presentation. Consistent with Unitholders' funds being classified as a financial liability, the distributions to Unitholders are part of finance costs which are recognised in the income statement. The classification does not have an impact on the net assets attributable to the Unitholders. It only affects how Unitholders' funds are disclosed in the balance sheet and how distributions are disclosed in the income statement. Distributable income is determined in the Distribution Statement on page 113.

(ii) Earnings per Unit based upon profit after tax before transactions with Unitholders and the average number of Units in issue, is presented in note 21.

The notes on pages 116 to 141 are an integral part of these financial statements.

Distribution Statement

For the year ended 31 December, 2006

	For the year ended 31 December 2006 HK$'000	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Profit after tax before transactions with Unitholders	**244,436**	40,543
Adjustments for the total distributable income (i)		
- Fair value gain on investment properties	**(37,753)**	—
Total distributable income	**206,683**	40,543
Distributable amount at 1 January	**40,543**	—
Distributable paid during the year/period (ii)	**(143,800)**	—
Distributable amount at 31 December	**103,426**	40,543
Distribution per Unit, proposed	**HK$0.1034**	N/A

Note:

(i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit after tax before transactions with Unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the income statement for the relevant year or period.

(ii) A distribution of HK$0.1438 per Unit, totaling HK$143,800,000, was paid to Unitholders on 8 November 2007.

Statement of Changes in Equity

For the year ended 31 December 2006

	Hedging reserve HK$'000	**Retained earnings** HK$'000	**Total equity** HK$'000
Balance at 7 December 2005	—	—	—
Change in fair value of cash flow hedges	(11,281)	—	(11,281)
Result for the period	—	11,281	11,281
Balance at 31 December 2005	(11,281)	11,281	—
Balance at 1 January 2006	(11,281)	11,281	—
Change in fair value of cash flow hedges	(24,327)	—	(24,327)
Result for the year	—	24,327	24,327
Balance at 31 December 2006	(35,608)	35,608	—

The notes on pages 116 to 141 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December, 2006

	Note	**For the year ended 31 December 2006 HK$'000**	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Cash flows from operating activities			
Net cash generated from operations	22	**257,657**	68,984
Interest paid		**(42,225)**	(2,300)
Net cash generated from operating activities		**215,432**	66,684
Cash flows from investing activities			
Purchase of property, plant and equipment		**(7,643)**	—
Purchase of investment properties		**(5,233)**	—
Interest received		**5,696**	41,209
Acquisition of subsidiaries, net of cash acquired		**—**	(2,832,299)
Net cash used in investing activities		**(7,180)**	(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
Decrease in amounts due to a related company		**(55,000)**	—
Distribution paid		**(143,800)**	—
Net cash (used in)/generated from financing activities		**(198,800)**	2,960,323
Increase in cash and cash equivalents, representing cash and cash equivalents at year/period end date		**9,452**	235,917
Exchange difference		**8,477**	—
Cash and cash equivalents at the beginning of the year/period		**235,917**	—
Cash and cash equivalents at the end of the year/period		**253,846**	235,917

The notes on pages 116 to 141 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

GZI Real Estate Investment Trust ("GZI REIT") and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the leasing of commercial properties in Mainland China ("China").

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 ("SFO") subject to the applicable conditions imposed by Securities and Futures Commission ("SFC") from time to time. The address of its registered office is 24/F, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

GZI REIT was listed on The Stock Exchange of Hong Kong Limited. 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 12 April 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, except that investment properties, financial assets and financial liabilities at fair value through profit or loss are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management 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 consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Effect of adoption of new standards, amendments to standards and interpretations

The following new standards, amendments to standards and interpretation are mandatory for the financial year ended 31 December 2006:

- HKAS 19 Amendment, Employee Benefits
- HKAS 21 Amendment, New Investment in a Foreign Operation;
- HKAS 39 Amendment, Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment, The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment, Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment, First-time Adoption of International Financial Reporting Standards and IFRS 6 Amendment, Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC) – Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC) – Int 5, Rights to Interests arising from Decommission, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC) – Int 6, Liabilities arising from Participating

The adoption of the above has no material impact to the consolidated financial statements of the Group, except as follows:

The adoption of Amendment to HKAS 39, Amendment "The fair value option" has restricted the circumstances in which a financial asset or liability may be designated as at fair value through profit or loss and has resulted in a change in accounting policy relating to the measurement of net assets attributable to unitholders, from fair value to amortised cost. The change in accounting policy has been made in accordance with the transitional provisions in the standard.

The following are the effects of the changes in the accounting policy described above on individual account caption:

	Effect on adoption of Amendment to HKAS 39, Amendment "The fair value option" HK$'000
Income statement item for the year ended 31 December 2006	
– change in fair value of Units	380,000
Result for the year	(380,000)

The change in accounting policy does not have an impact on the net assets attributable to Unitholders as at 31 December 2006 and 31 December 2005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

Standards, amendments to standards and interpretations have been issued but are not effective

The following new standards, amendments to standards and interpretation have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC) – Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies;
- HK(IFRIC) – Int 8, Scope of HKFRS 2;
- HK(IFRIC) – Int 9, Reassessment of embedded derivatives; and
- HK(IFRIC) – Int 10, Interim Financial Reporting and Impairment;
- HK(IFRIC) – Int 11, HKFRS 2 – Group and Treasury Share Transaction.
- HK(IFRIC) – Int 12, Service Concession Arrangements
- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements-Capital Disclosures.
- HKFRS 8, Operating Segments

The Manager does not expect the adoption of the above has material impact to the consolidated financial statements of the Group.

(b) Basis of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

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.

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

(d) 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.

(e) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

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.

(f) 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, 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 amortisation 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.

(i) 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'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Derivative financial instruments and hedging activities (Continued)

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.

(j) 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.

(k) 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.

(l) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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.

(n) 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.

(o) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(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. These 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 an expense 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: foreign exchange risk, credit risk and cash flow interest rate 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) 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. It has not hedged this foreign exchange rate risk.

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.

(ii) 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.

(iii) 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.

3 FINANCIAL RISK MANAGEMENT (Continued)

(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.

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.

4 CRITICAL ACCOUNTING ESTIMATES (Continued)

(a) Estimate of fair value of investment properties (Continued)

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

(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

	Construction in progress HK$'000	**Machinery and tools** HK$'000	**Total** HK$'000
For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005			
Opening net book value	—	—	—
Acquisition of subsidiary	—	3,415	3,415
Depreciation	—	(20)	(20)
Closing net book value	—	3,395	3,395
At 31 December 2005			
Cost	—	3,415	3,415
Accumulated depreciation	—	(20)	(20)
Net book value	—	3,395	3,395
For the year ended 31 December 2006			
Opening net book value	—	3,395	3,395
Addition	12,876	—	12,876
Transfer upon completion	(12,876)	7,643	(5,233)
Depreciation	—	(1,503)	(1,503)
Exchange difference	—	240	240
Closing net book value	—	9,775	9,775
At 31 December 2006			
Cost	—	11,298	11,298
Accumulated depreciation	—	(1,523)	(1,523)
Net book value	—	9,775	9,775

6 INVESTMENT PROPERTIES – GROUP

	2006 HK$'000	2005 HK$'000
Beginning of the year/period	**4,053,800**	—
Acquisition of subsidiaries	—	4,053,800
Addition	**5,233**	—
Fair value gain	**37,753**	—
Exchange difference	**143,285**	—
End of the year/period	**4,240,071**	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 2006 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.

In the consolidated income statement, direct operating expenses include HK$342,646 (2005: HK$54,000) relating to investment properties that were vacant.

As at 31 December 2006, all investment properties were pledged as collateral for the Group's bank borrowings (Note 15).

7 INVESTMENT IN SUBSIDIARIES

	2006 HK$'000	2005 HK$'000
Investments, at cost:		
Unlisted shares	**2,986,652**	2,986,652

The following is a list of the principal subsidiaries at 31 December 2006:

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 HK$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 cash received from rental income under each tenancy agreement. Thus, 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 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 value	—
Acquisition of subsidiaries	**152,917**
Closing net book value	**152,917**
At 31 December 2005	
Cost	**152,917**
Accumulated impairment	—
	152,917
For the year ended 31 December 2006	
Opening net book value	**152,917**
Exchange difference	**5,373**
Closing net book value	**158,290**
At 31 December 2006	
Cost	**158,290**
Accumulated impairment	—
	158,290

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) 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 twenty-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:

Growth rate	6%
Discount rate	6.72%

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

	2006 HK$'000	2005 HK$'000
Rental receivables	**19**	320
Less: provision for impairment of receivables	**—**	—
Rental receivables – net	**19**	320
Prepayments, deposits and other receivables	**5,829**	4,478
	5,848	4,798

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.

	2006 HK$'000	2005 HK$'000
0 – 30 days	**19**	268
31 – 120 days	**—**	52
	19	320

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

11 CASH AND CASH EQUIVALENTS – GROUP

As at 31 December 2006, included in the cash and cash equivalents of the Group are bank deposits of approximately HK$184,712,000 (2005: 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.

	2006 HK$'000	2005 HK$'000
Cash at bank	**185,412**	165,927
Short-term bank deposits	**68,434**	69,990
	253,846	235,917

The effective interest rate on short-term bank deposits was 4.15% (2005: 3.81%); these deposits have an average maturity of 7 (2005: 4) days.

12 HEDGING RESERVE – GROUP

	HK$'000
For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005	
Beginning of the period	—
Cash flow hedges:	
– Fair value losses	**11,231**
– Transfer to net profit	**50**
End of the period	**11,281**
For the year ended 31 December 2006	
Beginning of the year	**11,281**
Cash flow hedges:	
– Fair value losses (Note 14)	**64,665**
– Transfer to net profit (Note 19)	**(40,338)**
End of the year	**35,608**

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

	2006 HK$'000	2005 HK$'000
Rental deposits, current portion	**9,919**	6,138
Receipts in advance	**12,721**	21,842
Provision for withholding tax payable	**5,172**	3,060
Provision for business tax and flood prevention fee	**3,257**	564
Accruals for operating expenses	**15,510**	6,956
Accruals and other payables	**23,939**	10,580
	46,579	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$64,963,000 (2005: HK$63,695,000) as at 31 December 2006.

14 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	HK$'000
Interest rate and currency swaps – cash flow hedges	
For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005	
Beginning of the period	—
Fair value losses	**11,231**
End of the period	**11,231**
For the year ended 31 December 2006	
Beginning of the year	**11,231**
Fair value losses (Note 12)	**64,665**
Exchange difference	**1,682**
End of the year	**77,578**

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 hedge item is less than 12 months.

Interest rate and currency swaps

The notional principal amounts of the outstanding interest rate and currency swap contracts at 31 December 2006 were US$165,000,000 (2005: US$165,000,000).

At 31 December 2006, the fixed interest rate for the bank borrowings vary from 3.18% to 3.28% and the floating rates are LIBOR plus 1.35%. The contract reference exchange rate for the bank borrowings is 7.80870 (2005: 8.07847) Renminbi per one US dollar and the spot rate is 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 2006 will be continuously released to the income statement until the repayment of the secured bank borrowings (Note 15).

15 BANK BORROWINGS, SECURED – GROUP

	2006 HK$'000	2005 HK$'000
Non-current		
Bank borrowings	**1,266,469**	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 HK$1,280,000,000) with a maturity period of three years for the financing of the acquisition of subsidiaries from Guangzhou Construction & Development Co. Ltd. The loans were fully drawn down by the Group on 21 December 2005. The subsidiaries of GZI REIT also entered into an interest rate and US$/RMB currency non-deliverable swap facility with the Lending Banks on 21 December 2005. Pursuant to this 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 8.07847 Renminbi per one US dollar for repayment of interest and principal of the borrowings.

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

- investment properties of HK$4,240,071,000 (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 Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited, subsidiaries of the Group

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

	2006 HK$'000	2005 HK$'000
Between 2 and 5 years	**1,266,469**	1,255,216

The effective interest rate of the bank borrowings at the balance sheet date was 6.72% (2005: 5.89%).

The carrying amounts of the borrowings approximate their fair value.

The Group has no undrawn borrowing facilities as at 31 December 2006 (2005: Nil).

16 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	2006 **HK$'000**	2005 HK$'000
Opening of the year/period	**3,015,914**	—
Issuance of Units	—	2,986,652
Transfer from income statement	**220,109**	29,262
Distribution paid during the year	**(143,800)**	—
Exchange difference	**107,484**	—
End of the year/period	**3,199,707**	3,015,914

17 EXPENSES BY NATURE

	For the year ended 31 December 2006 **HK$'000**	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Property management fee (i)	**12,279**	241
Urban real estate tax	**10,043**	288
Business tax and flood prevention fee	**18,806**	348
Withholding tax (ii)	**35,387**	649
Depreciation expenses of property, plant and equipment	**1,503**	20
Asset management fee	**23,765**	573
Trustee's remuneration	**1,403**	160
Valuation fee	**153**	200
Legal and professional fee	**2,007**	1,130
Auditors' remuneration	**1,340**	1,300
Others	**11,445**	1,072
Total operating expenses	**118,131**	5,981

Note:

(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 23).

(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.

18 EMPLOYEE BENEFIT EXPENSE

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

19 FINANCE COSTS

	For the year ended 31 December 2006 HK$'000	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Interest expense:		
– bank borrowings wholly repayable within five years (Note 15)	**50,674**	2,555
Net foreign exchange transaction gains	**(40,655)**	(985)
Fair value losses on financial instruments:		
– interest rate and currency swaps: cash flow hedge, transfer from reserve (Note 12)	**40,338**	(50)
	50,357	1,520

20 INCOME TAX EXPENSES

The China enterprise income tax of the Group was paid by the way of withholding tax as disclosed in note 17(ii).

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 2006 (2005: Nil).

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 year ended 31 December 2006 is HK$0.24 (For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005: HK$0.04). 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$244,436,000 (For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005: HK$40,543,000) and on 1,000,000,000 Units (For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005: 1,000,000,000 Units) in issue during the period.

Diluted earnings per Unit is not presented as there is no dilutive instruments for the year ended 31 December 2006 and for the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005.

22 NOTE TO THE CASH FLOW STATEMENT

	For the year ended 31 December 2006 HK$'000	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Profit before taxation and transactions with Unitholders	**244,436**	40,543
Depreciation expenses	**1,503**	20
Amortisation of bank loan	**8,448**	—
Fair value gain on investment properties	**(37,753)**	—
Interest income	**(5,696)**	(41,209)
Finance costs	**41,909**	1,520
Increase in deferred assets	**(3,701)**	(480)
Decrease in rental receivables	**306**	2,201
Increase in prepayments, deposits and other receivables	**(1,170)**	(1,483)
Increase in rental deposits	**2,546**	3,121
(Decrease)/increase in receipts in advance	**(9,695)**	10,369
Increase in accruals and other payables	**12,747**	7,207
Net increase in amounts with related companies	**3,777**	47,175
Net cash generated from operations	**257,657**	68,984

23 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 December 2006, the Group was significantly influenced by Guangzhou Investment Company Limited (incorporated in Hong Kong), which owns approximately 30% of GZI REIT's Units. The remaining 70% of the Units are widely held.

The table set forth below summarised the names of significant parties and nature of relationship with GZI REIT as at 31 December 2006:

Connected party	Relationship with GZI REIT
Guangzhou Investment Company Limited ("GZI")[1]	A major Unitholder of GZI REIT
GZI REIT Asset Management Limited (the "Manager")[1]	A subsidiary of GZI
Guangzhou Construction & Development Holdings (China) Limited ("GCD Holding")[1]	A subsidiary of GZI
Guangzhou City Construction & Development Ltd. ("GCCD")[1]	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd. ("Yicheng")[1]	A subsidiary of GZI
White Horse Property Management Co. Ltd[1]	A subsidiary of GZI
Guangzhou City Construction & Development Xingye Property Agent Ltd.[1]	A subsidiary of GZI
Guangzhou City Construction and Development Decoration Ltd. ("GCCD Decoration")[1]	A subsidiary of GZI
Yue Xiu Enterprises (Holdings) Limited[1]	A major shareholder 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

[1] These connected parties are also considered as related parties of the Group, transactions and balances carried out with these related parties are disclosed in notes (a) and (b) below.

23 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

(a) Transactions with related parties

	For the year ended 31 December 2006 HK$'000	For the period from 7 December 2005 (date of establishment of GZI REIT) to 31 December 2005 HK$'000
Asset management fee paid/payable to the Manager (ii)	**(23,765)**	(573)
Decoration expenses paid/payable to GCCD Decoration, net (iv)	**(371)**	—
Management fee paid/payable to Yicheng	**(4,779)**	(143)
Management fee paid/payable to White Horse Property Management Co. Ltd	**(7,500)**	(98)
Rental income received/receivable from Guangzhou City Construction & Development Xingye Property Agent Ltd.	**1,924**	52
Rental income received/receivable from GZI	**1,118**	33
Rental income received/receivable from Yue Xiu Enterprises (Holdings) Limited	**49**	1
Rental income received/receivable from Yicheng	**6**	—
Trustee fee paid/payable to the Trustee	**(1,403)**	(160)
Valuation fee paid/payable to the Valuer	**(153)**	(200)
Transactions with the HSBC Group		
Interest expense paid/payable to the HSBC Group (iii)	**(16,334)**	(491)
Upfront arrangement fees on borrowings paid to the HSBC Group	**—**	(7,567)
Annual arrangement fees on borrowings paid to the HSBC Group	**(190)**	—
Rental income received/receivable from the HSBC Group	**8,186**	242
Interest income from the HSBC Group	**2,815**	76
Rental income received from the Manager	**44**	—

Note:

(i) All transactions with connected parties/related parties were carried out in accordance with the terms of the relevant agreement 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 14.

(iv) In January 2006, the Group entered into an agreement (the "Main Contract") of HK$5,052,065 with GCCD Decoration in connection with the renovation of certain units of White Horse Building. Pursuant to supplementary agreements entered into between the group, GCCD Decoration and two third-party subcontractors dated 28 January 2006, GCCD Decoration subcontracted part of the contract work, amounting to HK$4,647,900 of the contract sum of the Main Contract, to these third-party subcontractors.

23 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances with related parties

	2006 HK$'000	2005 HK$'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	**(901)**	(871)
Balance with Yicheng		
Amount due to Yicheng	**(724)**	(142)
Balance with White Horse Property Management Co. Ltd		
Amount due to White Horse Property Management Co. Ltd	**(857)**	(98)
Balance with GCCD Decoration		
Amount due to GCCD Decoration	**(371)**	—
Balance with the Manager		
Amount due to the Manager	**(17,065)**	—

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 year ended 31 December 2006 (2005: Nil).

24 CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Capital commitments in respect of property, plant and equipment, contracted but not provided for	**864**	—
Capital commitments in respect of investment properties, contracted but not provided for	**2,316**	—
	3,180	—

25 FUTURE MINIMUM RENTAL RECEIVABLE

At 31 December 2006, the Group had future minimum rental receivable under non-cancellable leases as follows:

	2006 HK$'000	2005 HK$'000
Not later than one year	**372,491**	340,390
Later than one year and not later than five years	**858,224**	1,057,492
Later than five years	**4**	37,963
	1,230,719	1,435,845

There were no future minimum rental receivable for GZI REIT.

Performance Table

As at 31 December, 2006

	2006	2005
Net assets attributable to Unitholders	**HK$3,199,707,000**	HK$3,015,914,000
Net assets attributable to Unitholders per Unit	**HK$3.200**	HK$3.016
The highest premium of the traded price to net asset value (i)	**HK$0.500**	HK$0.759
The highest discount of the traded price to net asset value (i)	**HK$0.350**	N/A
Net yield per Unit (ii)	**7.96%**	1.18%
Number of Units in issue	**1,000,000,000**	1,000,000,000

Notes:

(i) The highest premium is calculated based on the highest traded price of HK$3.7 (2005: HK$3.775) on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2006. The highest discount is calculated based on the lowest traded price of HK$2.85 on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2006. Since the lowest traded price during 2005 was HK$3.25 which is higher than the net asset value as at 31 December 2005, no discount of the traded price to net asset value was presented for 2005.

(ii) Net yield per Unit is calculated based on profit after tax before transactions with Unitholders per unit for the year ended 31 December 2006 over the traded price of HK$3.07 (2005: HK$3.45) as at 31 December 2006.

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
Paul, Hastings, Janofsky & Walker

Corporate and Investor Relations Information

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

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