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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your units in GZI REIT, you should at once hand this Circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

This Circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities, nor is it calculated to invite any such offer or invitation.

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

(Stock Code: 405)

*(a Hong Kong collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

Managed by



# 越秀房託資產管理有限公司 GZI REIT Asset Management Limited

## CIRCULAR TO UNITHOLDERS

- (I) CHANGE IN INVESTMENT POLICY AND OBJECTIVES AS TO THE GEOGRAPHICAL SCOPE OF THE INVESTMENT AND PROPOSED AMENDMENTS TO THE TRUST DEED
- (II) CONNECTED PARTY TRANSACTIONS IN RELATION TO THE PROPOSED ACQUISITION OF THE NEW PROPERTY AND THE ISSUE OF CONSIDERATION UNITS
- (III) CONTINUING CONNECTED PARTY TRANSACTIONS

Financial Adviser to the Manager



Independent Financial Adviser to the Independent Board Committee of  
the Manager, the independent Unitholder and the Trustee



YU MING INVESTMENT MANAGEMENT LIMITED  
禹銘投資管理有限公司

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A letter from the Board is set out on pages 11 to 52 of this Circular and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee (as defined in this Circular), the independent Unitholders and the Trustee is set out on pages 55 to 77 of this Circular.

A notice convening the EGM to be held at 9:30 a.m. on Tuesday, 26 February 2008, at 26/F., Yue Xiu Building, 160 Lockhart Road, Wanchai Hong Kong is set out on pages N-1 to N-20 of this Circular. Whether or not you are able to attend and vote at the EGM in person, please complete and return the accompanying form of proxy to the Unit Registrar of GZI REIT, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

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4 February 2008

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## CORPORATE INFORMATION

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<b>GZI REIT</b>	GZI Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time, or GZI Real Estate Investment Trust and the companies controlled by it, as the context requires.
<b>Manager</b>	GZI REIT Asset Management Limited 24/F., Yue Xiu Building 160 Lockhart Road Wanchai Hong Kong
<b>Directors of the Manager</b>	
<i>Executive Directors</i>	Mr. LIANG Ningguang ( <i>Chairman</i> ) Mr. LIU Yongjie ( <i>Chief Executive Officer</i> )
<i>Non-executive Director</i>	Mr. LIANG Youpan
<i>Independent Non-executive Directors</i>	Mr. CHAN Chi On, Derek Mr. LEE Kwan Hung, Eddie Mr. CHAN Chi Fai, Brian
<b>Trustee</b>	HSBC Institutional Trust Services (Asia) Limited 1 Queen's Road Central Hong Kong
<b>Unit Registrar</b>	Tricor Investor Services Limited 26/F., Tesbury Centre 28 Queen's Road East Hong Kong
<b>Legal Advisers to the Manager</b>	<i>As to Hong Kong law</i> Paul, Hastings, Janofsky & Walker 22/F., Bank of China Tower 1 Garden Road Central Hong Kong  <i>As to PRC Law</i> King & Wood 40/F., Office Tower A Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang District Beijing, China

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## CORPORATE INFORMATION

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<b>Legal Advisers to the Trustee</b>	<i>As to Hong Kong law</i> Simmons & Simmons 35/F., Cheung Kong Center 2 Queen's Road Central Hong Kong
<b>Financial Adviser to the Manager</b>	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Central Hong Kong
<b>Independent Financial Adviser to the Independent Board Committee, the independent Unitholders and the Trustee</b>	Yu Ming Investment Management Limited 1901B, 19/F., Allied Kajima Building 138 Gloucester Road Wanchai, Hong Kong
<b>Auditors</b>	PricewaterhouseCoopers Certified Public Accountants 22/F., Prince's Building Central Hong Kong
<b>Independent Property Valuer</b>	Colliers International (Hong Kong) Ltd Suite 5701, Central Plaza 18 Harbour Road Wanchai Hong Kong

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## DEFINITIONS

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In this Circular, the following definitions apply throughout unless otherwise stated:

<b>Acquisition</b>	The proposed acquisition of the entire issued share capital of the BVI Company by, and the assignment of the Shareholder Loans to, GZI REIT.
<b>Acquisition Value</b>	Approximately HK\$677.3 million (or approximately HK\$10,931 per sq.m. based on the Total Floor Area of 61,964.34 sq.m).
<b>Agreement</b>	The conditional sale and purchase agreement dated 14 January 2008 and entered into by the Vendor, the Guarantor, the Purchaser and the Manager in relation to the Acquisition.
<b>Amendments</b>	The proposed change in investment policy and objectives as to the geographical scope and the proposed amendments to the Trust Deed as set out in the EGM Notice.
<b>Announcement</b>	The announcement dated 14 January 2008 made by the Manager in relation to the Amendments, the Transactions and the Increase.
<b>Appraised Value</b>	The value, as at 4 November 2007, as appraised by the Independent Property Valuer of the New Property as set out in <b>Appendix 3</b> to this Circular.
<b>Board</b>	The board of Directors.
<b>Building</b>	Yue Xiu Neo Metropolis Plaza (formerly known as Yue Xiu New Metropolis), Nos. 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256 and 258 Zhongshanliu Road, Yue Xiu District, Guangzhou City, Guangdong Province, the PRC.
<b>Business Day</b>	Any day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general business in Hong Kong.
<b>BVI Company</b>	Metrogold Development Limited, a company incorporated in the British Virgin Islands.
<b>Completion</b>	The completion of the Acquisition pursuant to the Agreement.

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## DEFINITIONS

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<b>Conditions</b>	The conditions precedent to Completion under the Agreement.
<b>connected person</b>	Has the meaning ascribed to it in the REIT Code.
<b>Consideration Units</b>	The 65,972,687 new Units to be issued at HK\$3.08 per Unit to the Vendor or its nominated person as part payment of the Purchase Consideration payable upon Completion.
<b>Convertible Instruments</b>	Any securities convertible or exchangeable into Units, or any options or warrants or similar rights for the subscription or issue of Units (or securities convertible or exchangeable into Units), issued by GZI REIT or any Special Purpose Vehicle (as defined in the Trust Deed); and references to an issue of Units “ <b>pursuant to any Convertible Instruments</b> ” means an issue of Units pursuant to the exercise of any conversion, exchange and/or subscription or similar rights (as the case may be) under the terms and conditions of such Convertible Instruments.
<b>Deed of Right of First Refusal</b>	The deed dated 8 December 2005 made by GZI in favour of the Trustee and the Manager.
<b>Directors</b>	The directors of the Manager.
<b>Domestic JV Partner</b>	廣州市華強投資有限公司, a PRC entity which is not a connected person of GZI REIT.
<b>Dragon Yield</b>	Dragon Yield Holding Limited, a company incorporated in the British Virgin Islands and which is directly wholly-owned by GZI.
<b>EGM</b>	The extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice.
<b>EGM Notice</b>	The notice included in this Circular in respect of the EGM to consider and, if thought fit, approve the Amendments, the Transactions and/or the Increase.
<b>Existing Properties</b>	The properties owned by GZI REIT as at the Latest Practicable Date, a detailed description of which has been set out in the IPO Offering Circular.

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## DEFINITIONS

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<b>Financial Year</b>	(a) For the first Financial Year, the period from and including the date of establishment of GZI REIT to and including 31 December 2005; (b) for the last Financial Year, the period from and including the most recent 1 January before the date GZI REIT terminates to and including the date GZI REIT terminates; and (c) in all other circumstances, the 12-month period ending on 31 December in each year.
<b>Financing Condition</b>	One of the Conditions, being the obtaining of financing for the Acquisition on market terms and on such other terms as are satisfactory to the Purchaser and (where applicable) all requisite consents and/or approvals for the Transactions as shall be required by the trustee of the Proposed Convertible Bonds as summarised in paragraph 2(j)(v) of the section headed “Letter from the Board — The Agreement — Conditions Precedent” of this Circular.
<b>General Mandate</b>	The power of the Manager to issue Units without approval of Unitholders pursuant to Paragraph 12.2 of the REIT Code and Clause 7.5 of the revised Trust Deed (if approved).
<b>Gross Rentable Area</b>	In respect of a property, that portion of the Total Floor Area of the property determined by the Manager at any given time to be rentable.
<b>Group</b>	GZI REIT and the companies directly or indirectly owned and controlled by GZI REIT.
<b>Guarantor</b>	GZI.
<b>GZI</b>	Guangzhou Investment Company Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 123) and the stock exchange operated by Singapore Exchange Securities Trading Limited.
<b>GZI Associates</b>	The controlling entities, holding companies, subsidiaries and associated companies of GZI. For the purposes of this definition, “controlling entity” and “associated company” shall have their respective meanings under the REIT Code.

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## DEFINITIONS

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<b>GZI REIT</b>	GZI Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time, or GZI Real Estate Investment Trust and the companies controlled by it, as the context requires.
<b>HIBOR</b>	The rate of interest offered on Hong Kong Dollars loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year.
<b>HK\$</b>	Hong Kong Dollars.
<b>Hong Kong</b>	The Hong Kong Special Administrative Region of the People's Republic of China.
<b>Hong Kong Stock Exchange</b>	The Stock Exchange of Hong Kong Limited.
<b>Increase</b>	The proposed increase in annual caps and extension of the waiver period for certain continuing connected party transactions.
<b>Independent Board Committee</b>	The independent committee of the Board established to advise the independent Unitholders on the Transactions and the Increase, comprising all the independent non-executive directors, namely: Mr. CHAN Chi On, Derek, Mr. LEE Kwan Hung, Eddie and Mr. CHAN Chi Fai, Brian.
<b>Independent Financial Adviser</b>	Yu Ming Investment Management Limited, a licensed corporation entitled to carry out types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO.
<b>Independent Property Valuer</b>	Colliers International (Hong Kong) Limited, the principal valuer of GZI REIT.
<b>Independent Property Valuer's New Property Valuation Report</b>	The valuation report issued by the Independent Property Valuer on the New Property, attached as <b>Appendix 3</b> to this Circular.
<b>IPO Offering Circular</b>	The offering circular dated 12 December 2005 issued by GZI REIT in connection with the initial public offering of Units by GZI REIT.
<b>Issue Price</b>	The price per Unit at which Units are from time to time issued, as determined in accordance with Clause 9.2 of the revised Trust Deed (if approved).

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## DEFINITIONS

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<b>Last Trading Day</b>	11 January 2008.
<b>Latest Practicable Date</b>	28 January 2008, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular.
<b>Listing Date</b>	21 December 2005, being the date on which the Units were first listed on the Hong Kong Stock Exchange.
<b>Listing Rules</b>	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
<b>Long Stop Date</b>	The date falling six (6) months from the date of the Agreement (or such other date as the parties to the Agreement may agree in writing).
<b>Macau</b>	The Macau Special Administrative Region of the People's Republic of China.
<b>Main Board</b>	The stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange.
<b>Manager</b>	GZI REIT Asset Management Limited, as manager of GZI REIT.
<b>Market Price</b>	In relation to a Unit, has the meaning set out in Clause 9.2 of the revised Trust Deed (if approved).
<b>New Property</b>	Approximately 72.3% (based on Total Floor Area) of the Building, a detailed description of which is set out both in the Agreement and in the Independent Property Valuer's New Property Valuation Report.
<b>New Property Income</b>	The rental and other incomes (exclusive of management charges and government rates) to be derived from the New Property.
<b>occupancy rate</b>	The Gross Rentable Area in sq.m. occupied by tenants as a percentage of total Gross Rentable Area.
<b>Ordinary Resolution</b>	A resolution of Unitholders passed by a simple majority of the votes of those present, whether in person or by proxy, and entitled to vote, where the votes shall be taken by way of poll, but with a quorum of two or more Unitholders holding at least 10% of Units in issue.

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## DEFINITIONS

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<b>PRC or China</b>	The People's Republic of China.
<b>Property Adviser</b>	Jones Lang LaSalle Limited.
<b>Property Company</b>	Guangzhou Jieyacheng Properties Co., Ltd., a sino-foreign co-operative joint venture.
<b>Property Manager</b>	Guangzhou Yicheng Property Management Limited, GZI REIT's property manager.
<b>Proposed Convertible Bonds</b>	The bonds convertible into Units intended to be issued.
<b>Purchase Consideration payable upon Completion</b>	Approximately HK\$677.3 million (or approximately HK\$10,931 per sq. m. based on the Total Floor Area of 61,964.34 sq. m.) adjusted to take into account the combined net assets of the BVI Company and the Property Company as at 30 September 2007.
<b>Purchaser</b>	The Trustee, in its capacity as trustee of GZI REIT.
<b>Record Date</b>	26 February 2008, being the date fixed for the purposes of determining Unitholders' entitlement to vote at the EGM.
<b>REIT Code</b>	The Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being.
<b>RMB and Renminbi</b>	Renminbi, being the lawful currency of The People's Republic of China.
<b>SFC</b>	The Securities and Futures Commission of Hong Kong.
<b>SFO</b>	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.
<b>Shareholder Loans</b>	The entire amount of the principal, interest (if any) and other sums and indebtedness due, owing or payable to the Vendor by the BVI Company as at Completion.
<b>Special Resolution</b>	A resolution of Unitholders passed by a majority consisting of 75% or more of the votes of those present and entitled to vote in person or by proxy, but with a quorum of two or more Unitholders holding not less than 25% of the Units in issue.
<b>sq.m.</b>	Square metre(s).

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## DEFINITIONS

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<b>tenancy</b>	A lease, tenancy agreement or licence in respect of premises granted to a tenant and “ <b>tenancies</b> ” shall be construed accordingly.
<b>Tenancy Services Agreements</b>	The tenancy services agreements entered or to be entered into between the Manager and the Property Manager.
<b>tenant</b>	A lessee, tenant or licensee, as the case may be, under a lease, tenancy agreement or licence.
<b>Total Floor Area</b>	In respect of the New Property, (a) that portion of area contained within the external faces of the external walls of the building measured on each floor level, and (b) a <i>pro rata</i> portion of the common areas and area of the mechanical and electrical floors of the building, including the carparking spaces, clubhouse and common facilities area.
<b>Trading Day</b>	A day when the Hong Kong Stock Exchange is open for dealing business.
<b>Transactions</b>	The Acquisition and the issue of the Consideration Units in connection therewith.
<b>Trust Deed</b>	The trust deed constituting GZI REIT dated 7 December 2005 and entered into between the Trustee and the Manager, as may be amended and supplemented from time to time.
<b>Trustee</b>	HSBC Institutional Trust Services (Asia) Limited, in its capacity as trustee of GZI REIT.
<b>Unit</b>	A unit of GZI REIT.
<b>Unit Registrar</b>	Tricor Investor Services Limited.
<b>Unitholder</b>	Any person registered as holding a Unit including persons so registered as joint holders.
<b>URET</b>	Urban real estate tax imposed with reference to 70% of the original cost of the real estate at a rate of 1.2% per annum.
<b>Vendor</b>	Guangzhou Investment (China Property) Company Limited, a company incorporated in the British Virgin Islands.

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## DEFINITIONS

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<b>White Horse Units</b>	Nine strata units in White Horse Building located at No.16 Zhan Nan Road, Yue Xiu District, Guangzhou, the PRC.
<b>Yue Xiu</b>	Yue Xiu Enterprises (Holdings) Limited, a company incorporated in Hong Kong and the controlling shareholder of GZI.
<b>Yue Xiu Group</b>	Yue Xiu and its subsidiaries.
<b>%</b>	Per centum or percentage.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

Any discrepancies in the tables, graphs and charts between the listed amounts and totals thereof are due to rounding.

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## LETTER FROM THE BOARD

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

(Stock Code: 405)

*(a Hong Kong collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

Managed by



越秀房託資產管理有限公司  
**GZI REIT Asset Management Limited**

**Directors of the Manager:**

*Executive Directors*

Mr. LIANG Ningguang (*Chairman*)

Mr. LIU Yongjie (*Chief Executive Officer*)

*Non-executive Director*

Mr. LIANG Youpan

*Independent Non-executive Directors*

Mr. CHAN Chi On, Derek

Mr. LEE Kwan Hung, Eddie

Mr. CHAN Chi Fai, Brian

**Registered Office:**

24/F., Yue Xiu Building

160 Lockhart Road

Wanchai

Hong Kong

4 February 2008

To: Unitholders of GZI REIT

Dear Sir/Madam,

### CIRCULAR TO UNITHOLDERS

**I. IN RELATION TO THE PROPOSED CHANGE IN INVESTMENT POLICY AND  
OBJECTIVES AS TO THE GEOGRAPHICAL SCOPE OF THE INVESTMENT AND  
THE PROPOSED AMENDMENTS TO THE TRUST DEED**

Reference is made to the announcement dated 14 January 2008 by the Manager in relation to the Amendments. The purpose of this Circular is to provide you with further information regarding Special Resolutions to be proposed at the EGM relating to the Amendments. This Circular also contains the notice of EGM.

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## LETTER FROM THE BOARD

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### REASONS FOR THE PROPOSED AMENDMENTS AND APPROVALS REQUIRED

#### Expansion of geographical scope

As stated in the IPO Offering Circular, the investment objective for GZI REIT is to invest in properties in Guangdong province in the PRC (excluding Hong Kong and Macau) and in pursuing its investment objective, the Manager will adhere to the following policies:

- unless Unitholders approve otherwise by Special Resolution at a meeting convened by the Manager, investments will initially be in real estate in Guangdong province;
- investments will be in properties for the long term; and
- investments will be in a diverse portfolio of sustainable income producing properties which are used primarily for office, retail and other commercial purposes.

To cope with the strategic plan of GZI REIT to acquire properties to grow its businesses, to expand its operations into other markets; to have investments in more than one geographical location; to seize investment opportunities available in other markets and to stay competitive, the Manager proposes to broaden the investment policy and objective of GZI REIT in relation to its geographical scope from investments initially in real estate in Guangdong province to permit investment in real estate in the PRC (including Hong Kong and Macau). The Manager intends to retain the same business strategies stated in the IPO Offering Circular while expanding its geographical scope.

(See Special Resolution 1 in the EGM Notice.)

#### Amendments to the Trust Deed

##### Issue of Units and/or Convertible Instruments to Connected Persons

Currently, under Clause 7.6 of the Trust Deed, an issue of new Units to a connected person (other than as part of an offer made to all Unitholders on a pro rata basis) requires specific prior approval of Unitholders by Ordinary Resolution.

The proposed amendments will allow the Manager to issue Units and/or Convertible Instruments to a connected person, without the requirement of obtaining Unitholders' approval, in the following circumstances:

- (a) when the connected person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Unitholder; or
- (b) when Units are issued to the Manager to satisfy the relevant amount of the Manager's remuneration; or

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## LETTER FROM THE BOARD

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- (c) when Units and/or Convertible Instruments are issued to a connected person within 14 days after such connected person has executed an agreement to reduce its holding in the same class of Units and/or Convertible Instruments by placing such Units and/or Convertible Instruments to or with any person(s) who is/are not its associate(s)(other than any Excluded Associate), provided always that (A) the new Units and/or Convertible Instruments must be issued at a price not less than the placing price (which may be adjusted for the expenses of placing); and (B) the number of Units and/or Convertible Instruments issued to the connected person must not exceed the number of Units and/or Convertible Instruments placed by it.

The Manager is of the view that allowing it to issue Units, without requiring Unitholders' approval, in the circumstances set out in (a) is consistent with the current Clause 7.6 of the Trust Deed. The proposed amendments merely clarify that such arrangements should also be extended to the issue of Convertible Instruments to connected persons. As for the circumstances in (b), the proposed amendment is merely to clarify the position of the Manager under the proposed revision of Clause 15.1(e) of the Trust Deed. The Manager has applied to the SFC for a waiver from strict compliance with Paragraph 12.2 of the REIT Code in respect of the need to obtain Unitholders' prior approval to issue Units to the Manager as payment of all or part of the Manager's Fee (as defined in the revised Trust Deed, if approved). With respect to the circumstance in (c), the Manager is of the view that such a procedure is in line with the corresponding practice in relation to placing and top-up subscription transactions adopted by listed companies in Hong Kong under the Listing Rules; and the limited scope under which it may operate affords sufficient protection to Unitholders.

As a result of the proposed amendment to Clause 7.6 of the Trust Deed, the Manager proposes to include in the Trust Deed a definition of "Excluded Associate", which is to be defined as "any person or entity who/which is an associate of the relevant Connected Person solely by virtue of the operation of paragraphs (b), (c) and/or (k) (other than a related corporation covered under paragraph (a) of definition of "related corporation" in Schedule 1 of the SFO) of the definition of "associate" in Schedule 1 of the SFO".

The Manager has applied to the SFC for a waiver from strict compliance with Paragraph 6.2, Chapter 8, Paragraph 10.7(b)(iv) and Paragraph 12.2 of the REIT Code so as to allow the Manager to issue new Units and/or Convertible Instruments to a connected person, without the need for compliance with any reporting, announcement, disclosure or Unitholder approval requirements under Chapter 8, Paragraph 10.7(b)(iv) and/or Paragraph 12.2 of the REIT Code, or any valuation requirement under Paragraph 6.2 of the REIT Code, in circumstances where the issuance complies with the terms of the proposed new Clause 7.6 above. The Manager shall, notwithstanding such waiver, issue an announcement(s) at the relevant time(s) in relation to the placing and top-up subscription transaction pursuant to Paragraph 10.4 of the REIT Code.

(See Special Resolution number 2 in the EGM Notice.)

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## LETTER FROM THE BOARD

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### Issue Price

Currently, Clause 9.2 of the Trust Deed provides that the issue of Units (or the grant of any option to subscribe for Units) is to be at an Issue Price that is equal to the Market Price or, in the Manager's discretion, at a premium to the Market Price or at a discount of no more than 20% to the Market Price. Clause 9.2 of the Trust Deed currently defines "**Market Price**" as the price determined by the Manager as being the higher of:

- (a) the closing price of the Units on the Hong Kong Stock Exchange on the date of the relevant agreement for the proposed issue of Units; and
- (b) the average closing price of the Units in the ten trading days of the Hong Kong Stock Exchange immediately prior to the earliest of:
  - (i) the date of announcement of the proposed issue of Units;
  - (ii) the date of the relevant agreement for the proposed issue of Units; and
  - (iii) the date on which the Issue Price is fixed.

The current Clause 9.2 of the Trust Deed does not cater for the issue or grant of Convertible Instruments whereby the conversion (or similar) price is typically determined at the time of issue or grant of the Convertible Instrument, not at the time of conversion (or similar event). Examples of such Convertible Instruments include convertible bonds and subscription warrants. For clarity, the amendment to the Issue Price links the assessment of the "Market Price" to the time when the agreement (whether conditional or not) relating to the proposed issue of new Units or Convertible Instruments is made, rather than the time when the Manager is, pursuant to the terms of the Convertible Instrument, required to issue new Units on behalf of GZI REIT.

Also, though the Unitholders may approve an issue of new Units at a discount greater than 20% to the Market Price, there is currently no discretion for Unitholders to approve an issuance of new Units on a different pricing basis. The proposed amendments to Clause 9.2 will allow the Manager to issue, or agree to issue, new Units in accordance with the pricing basis as stipulated in an Ordinary Resolution duly approved by Unitholders, giving the Manager greater flexibility in determining the pricing of such new Units to accommodate commercial needs.

As such, the Manager proposes to amend Clause 9.2 of the Trust Deed to provide that:

- (a) the issue of Units on behalf of GZI REIT (whether directly, or pursuant to any Convertible Instruments issued by GZI REIT) on any Business Day will be at an Issue Price per Unit that is
  - (i) equal to the Market Price; or,
  - (ii) in the Manager's discretion, at a discount of no more than 20% to the Market Price or at a premium to the Market Price; or

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## LETTER FROM THE BOARD

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- (iii) where approval by way of an Ordinary Resolution is obtained pursuant to Clause 9.2(b), on the pricing basis as authorised in such Ordinary Resolution.

For the avoidance of doubt, the Issue Price shall, in the case of any Convertible Instruments, mean the initial price per Unit at which Units are to be issued pursuant to the exercise of any conversion, exchange or subscription or similar rights under such Convertible Instruments, before any adjustments which may apply thereunder (“**Initial Issue Price**”).

An issue of, or agreement (whether conditional or unconditional) to issue, new Units at an Issue Price or Initial Issue Price (as the case may be) that is otherwise than in accordance with the pricing basis and/or discount allowed in (i) or (ii) above will require specific prior approval of Unitholders by Ordinary Resolution.

- (b) The Market Price shall be determined by the Manager, as being the higher of:
  - (a) the closing price of the Units on the Hong Kong Stock Exchange on the date of the relevant agreement or other instrument for (i) the proposed issue of Units, or (ii) the proposed issue of any Convertible Instruments; and
  - (b) the average closing price of the Units in the ten trading days (as defined in the Trust Deed) immediately prior to the earlier of:
    - (i) the date of announcement of (1) the proposed issue of Units, or (2) the proposed issue of any Convertible Instruments;
    - (ii) the date of the relevant agreement or other instrument for (1) the proposed issue of Units, or (2) the proposed issue of any Convertible Instruments; and
  - (iii) the date on which the Issue Price is fixed.

In order to lend greater clarity to the operation of the revised Clause 9.2 of the Trust Deed (if approved) in determining the prevailing Market Price of the Units to be issued to satisfy the relevant amount of the Manager’s Fee (“Fee Units”), further supplement to Clause 9.2 is proposed to elaborate that “Market Price” in relation to the Fee Units shall mean the price as determined by the Manager as being the higher of (i) the closing price of the Units on Hong Kong Stock Exchange on the trading day immediately preceding the date of issue of the Fee Units; and (ii) the average closing price of the Units in the ten trading days immediately preceding the date of issue of the Fee Units.

(See Special Resolution 3 in the EGM Notice.)

### **Appointment of Proxies**

Currently, paragraph 3 of Schedule 1 to the Trust Deed provides for, among other things, the appointment of proxies by Unitholders. The purpose of the amendment in relation to appointment of proxies is to incorporate certain provisions governing the procedure for appointment of proxies which are similar to those typically adopted by corporate entities in Hong Kong.

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## LETTER FROM THE BOARD

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The amendment in relation to appointment of proxies provides, among other things, that deposit of instruments appointing proxies must be made not less than 48 hours before the time appointed for holding the meeting or adjourned meeting of Unitholders, and clarifies, among other things, that delivery of an instrument appointing a proxy does not preclude a Unitholder from attending and voting at the meeting. Such provisions are and will continue to be included in the notes to the form of proxy for meetings of Unitholders.

The Manager believes that the amendment in relation to appointment of proxies will provide greater procedural and administrative clarity for the appointment of proxies.

(See Special Resolution 4 in the EGM Notice.)

### **Notice Period of Meeting and Service of Notices to Unitholders**

Currently, paragraph 2.2 of Schedule 1 to the Trust Deed provides that for every meeting of Unitholders, twenty-one days' notice at the least shall be given to the Unitholders. The purpose of this proposed amendment is to reduce the notice period of meeting (other than meeting where a Special Resolution is proposed for consideration) from twenty one days at the least to fourteen days at the least which is in line with those typically adopted by real estate investment schemes in Hong Kong.

The Manager believes that the proposed amendment will provide greater procedural flexibility which enhances the efficiency of operation and administration.

Also the proposed amendment will amend paragraph 2.2 of Schedule 1 of the Trust Deed to provide that any notice so served by post shall be deemed to be served on the day following the day of posting. Such amendment will enable GZI REIT to adopt a notice mechanism in this regard which is more consistent with the practice adopted by listed companies in Hong Kong.

(See Special Resolution 5 in the EGM Notice.)

### **General Mandate to issue Units otherwise than on a pro rata basis to existing Unitholders**

Currently, Clause 7.5 of the Trust Deed provides that Units may be offered, otherwise than on a pro rata basis to all existing Unitholders, without the approval of Unitholders, if the issue of new Units during any Financial Year (as defined in the Trust Deed) does not increase the total number of Units from the number of Units that were outstanding at the end of the previous Financial Year by more than 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC).

The primary purposes of the amendments to the general mandate provision are to:

- (A) clarify the denominator on which the computation of the number of Units within the 20% new issue general mandate is based if new Units are offered or issued in the first Financial Year. In the case of the first Financial Year, there is no previous financial year end date on which any Units were in issue and so the relevant denominator for the first Financial Year will be the number of Units outstanding as at the Listing Date; and

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## LETTER FROM THE BOARD

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- (B) clarify the manner of application of the general mandate computation in the case of issue of Convertible Instruments. The effect is that the number of Units will be calculated as at the time of the entering into of the agreement or instrument for the issue or grant (whichever is earlier) of such Convertible Instruments; and for future calculations of the general mandate, no account will be taken of any Units which may be issued pursuant to any Convertible Instruments to the extent that such Units have already been taken into account in the initial calculation as mentioned above (to avoid double-counting), or fall within the other exclusions provided in the proposed new Clause 7.5(i)(a).

In the event that the Manager is unable to ascertain, as at the time of entering into the agreement or instrument for the issue or grant (as the case may be) of a Convertible Instrument, whether the maximum number of Units issuable pursuant to such Convertible Instrument may exceed the general mandate as set out in the proposed new Clause 7.5 of the Trust Deed in any relevant Financial Year, specific Unitholders' approval will be sought for the proposed issue of such Convertible Instrument.

(See Special Resolution 6 in the EGM Notice.)

Set out in Appendix 1 are hypothetical examples, which demonstrate how the number of Units that may be issued, or agreed to be issued, otherwise than on a pro rata basis to all existing Unitholders without Unitholders' approval, is calculated under the proposed new Clause 7.5 of the Trust Deed. Please note that such examples are purely for illustrative purposes only and do not represent any plans by GZI REIT in relation to its equity or debt capital structure, nor should they be taken to constitute the giving of any legal or investment advice by GZI REIT, the Manager, the Trustee or any of their respective professional advisers. Unitholders who are in doubt as to the legal or any other implications of the Amendments are recommended to consult their own professional advisers.

### **Payment of Manager's remuneration in the form of Units**

Currently, Clause 15.1(e) of the Trust Deed provides that the Manager's remuneration shall be paid in cash. The purpose of the amendment is to provide flexibility so that (a) the Manager's base/service fee shall at the election of the Manager, be paid in cash, be paid entirely in the form of Units or partly in cash and partly in the form of Units; (b) the Manager's transaction fee shall at the election of the Manager, be paid in cash or with the approval of the Unitholders by an ordinary resolution, be paid entirely in the form of Units or partly in cash and partly in the form of Units.

The Manager considers that (a) issue of Units for payment of all or part of the Manager's Fee is a generally accepted arrangement for real estate investment trusts authorized by the SFC; (b) the proposed fee structure would align the interest of the Manager with that of the Unitholders as the value of the Units received by the Manager would appreciate with the performance of GZI REIT achieved by the Manager; and (c) the fee structure is open and transparent given the mechanism for determining the price of the Units is objective and fully disclosed in this Circular.

(See Special Resolution 7 in the EGM Notice.)

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## LETTER FROM THE BOARD

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### **Trustee to charge additional fees in exceptional circumstances**

The amendment in relation to Trustee's Additional Fees allows the Trustee to charge a capped fee in exceptional circumstances where the Trustee is required to undertake duties of an exceptional nature or otherwise outside the scope of the Trustee's normal duties. The Trustee believes that this amendment is fair and reasonable given that the Trustee may be required to undertake additional work as GZI REIT develops and acquires or disposes properties. Additional fees would also afford more flexibility to the Trustee in allocating internal resources to such exceptional tasks with the resulting benefit to the Unitholders of greater efficiency in performing such tasks. The additional fees would in any event, unless otherwise approved by Unitholders, be capped for each transaction and would be fully disclosed in the relevant circular sent to Unitholders. The Trustee considered that its ability to charge additional fees is consistent with the practice adopted by the Trustee in respect of most of the REITs in Hong Kong where the Trustee acts as trustee and the Trustee believes such fees represent market standard.

(See Special Resolution 8 in the EGM Notice.)

### **Use of more than two layers of Special Purpose Vehicles**

Currently, Clause 19 of the Trust Deed provides that the Manager shall ensure that GZI REIT shall incorporate or acquire no more than two layers of Special Purpose Vehicles in respect of any investment. In certain situation, it may be to the benefit of GZI REIT to use more than two layers of Special Purpose Vehicles and the purpose of the amendment is to provide flexibility to GZI REIT so that the Manager shall ensure that GZI REIT shall incorporate or acquire no more than two layers of Special Purpose Vehicles unless otherwise permitted or waived by the SFC.

(See Special Resolution 9 in the EGM Notice.)

### **Calculation of the Distribution Entitlement per Unit**

Currently, Clause 24.11(d) of the Trust Deed provides that the Manager shall arrange for the Auditor to review and verify the Trustee's or the Registrar's calculation of the Distribution Entitlement (as the case may be) for each Unitholder. The purpose of the amendment is to state correctly the existing arrangement that the Auditor is to review and check the calculation of the Distribution Entitlement per Unit in issue at the close of business on the Record Date (as defined in the revised Trust Deed (if approved)) for the Distribution Period.

(See Special Resolution 10 in the EGM Notice.)

### **Expenses to be Payable out of GZI REIT's Deposited Property**

Schedule 4 of the Trust Deed sets out various types of expenses that can be paid out of the assets of GZI REIT. It is not clear if public relations-related expenses are expressly authorised by the Trust Deed to be payable out of the Deposited Property (as defined in the

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## LETTER FROM THE BOARD

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Trust Deed). As these expenses are incurred to promote or enhance GZI REIT's interest for the benefit of GZI REIT, the Manager believes that it is appropriate to modify Schedule 4 of the Trust Deed to allow all fees, costs and expenses in connection with any offering or issue of Units or Convertible Instruments (including costs and expenses incurred in respect of roadshows, press conferences, luncheons, presentations and other public relations-related costs or expenses and fees for public relations consultants and Unit/Convertible Instrument issuance-related expenses) or incurred in the convening and holding of meetings of Unitholders or meetings for purposes of investor and analyst briefings, as well as all fees, costs and expenses incurred in connection with any public relations-related activities in connection with GZI REIT, to be payable out of the GZI REIT's assets. This will apply to public relations-related costs and expenses for all purposes relating to GZI REIT or its business, including for example future capital-raising exercises or conferences/presentations such as those conducted in connection with publication of results of GZI REIT.

The Manager has applied to the SFC for a waiver from strict compliance with Paragraph 9.13 of the REIT Code so as to allow the various categories of fees, costs and expenses as described in Schedule 4 of the Trust Deed (as amended by the relevant Amendments) to be paid out of the Deposited Property.

(See Special Resolution 11 in the EGM Notice.)

### **Clarify items to be excluded for calculation of leverage ratio**

Clause 20.4 of the Trust Deed currently provides that no new borrowing or money raising should be requisitioned by the Manager if upon the effecting of such borrowing or raising the amount thereof, together with the aggregated amount of all other raising or borrowings and still remaining to be repaid would thereupon in the aggregate exceed 45% (or such other higher or lower percentage as may be permitted by the REIT Code or as may be specifically permitted by the relevant authorities) of the total gross asset value of the Deposited Property. The objective of the said Clause 20.4 is to ensure the leverage ratio of GZI REIT is not more than 45% (or such other higher or lower percentage as may be permitted by the REIT Code or as may be specifically permitted by the relevant authorities) in the event of any additional borrowing. However the word "money raising" in the said Clause 20.4 is ambiguous and does not properly exclude the funding from issuance of additional Units.

The amendments aim to (a) properly define the calculation of leverage ratio (in accordance with market practice), i.e. total borrowings against total assets; (b) clarify that funding from issuance of Units, which will be directly accounted for under "net assets attributable to Unitholders" is not part of total borrowing and hence not taken into accounts for the calculation of GZI REIT's leverage ratio.

(See Special Resolution 12 in the EGM Notice.)

### **Update the Trust Deed in line with market practice**

The amendments in Clause 9 (by adding a new Clause 9.5), Clause 11.6, Clause 11.14, Clause 23(a) and Clause 28.2 of the Trust Deed aim to update the Trust Deed in line with the trust deeds of other real estate investment schemes and/or the market practice. The Manager believes that the amendments will provide greater procedural and administrative clarity.

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## LETTER FROM THE BOARD

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(a) *Handling of right issue to Unitholders whose addresses are outside Hong Kong*

Currently, the Trust Deed mentions nothing about how the rights issues to Unitholders whose address are outside Hong Kong should be handled bearing in mind the applicable laws in applicable jurisdictions outside Hong Kong. The Manager proposes insertion of Clause 9.5 into the Trust Deed to set out the arrangement in accordance with the market practice.

(b) *Publication of notices / announcements*

The Manager notes that the SFC has on 5 June 2007 announced the alignment of the publication methods of announcements by SFC-authorized REITs with those adopted by the Hong Kong Stock Exchange in relation to listed companies. Under the new arrangements, SFC-authorized REITs are allowed to issue announcements by electronic means instead of paid announcements. The Manager proposes to amend Clauses 11.6 and 28.2 of the Trust Deed in order to clarify that GZI REIT is entitled to utilize the new dissemination arrangements allowed.

(c) *Minor being the sole survivor of the joint Unitholders*

There is currently no provision in the Trust Deed as to how the Manager and/or the Trustee should act in the case of the death of any one of joint Unitholders and where the sole survivor is a minor (i.e. any individual under the age of 18 years). The Manager proposes to amend Clause 11.14 of the Trust Deed to set out the arrangement in accordance with market practice.

(d) *Insurance of Real Estate*

Currently, Clause 23(a) of the Trust Deed prescribes the arrangement of insurance in relation to real estate Investments (as defined in the Trust Deed) to the full insurable value against fire, loss of rent etc. This may or may not reflect (i) the factual situation that such Investments may not be of a nature or kind capable of being so insured; or (ii) the market practice of the jurisdiction in which such Investment is located. The Manager proposes to amend the said Clause 23(a) so that in the case of Investments which are of a nature or kind capable of being so insured, insurance to a value in accordance with local market practice shall be arranged.

(See Special Resolution 13 in the EGM Notice.)

### **Amendments to Definitions**

#### *Authorised Investments*

Clause 1.1 of the Trust Deed currently defines “Authorised Investments” to include various types of investments. The proposed amendment will extend the definition of “Authorised Investments” to also include loans to any Special Purpose Vehicle (as defined in the Trust Deed).

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## LETTER FROM THE BOARD

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### *Record Date*

Clause 1.1 of the Trust Deed currently defines “**Record Date**” as “the date or dates in each Distribution Period determined by the Manager for the purpose of determining the Distribution Entitlement to the Annual Distributable Amount”.

The amendment will amend the definition of “**Record Date**” by inserting the words “respect of” after “the date or dates in” and replacing “to the Annual Distributable Amount” with “of the Holders to the Total Distribution Amount”.

The purpose of the amendment is to clarify that a record date for the purposes of determining a Unitholder’s distribution entitlement for any distribution period has to be on a date after the end of the relevant distribution period, which is in line with the practice of listed companies in Hong Kong.

### *REIT Code*

Clause 1.1 of the Trust Deed currently defines “**REIT Code**” as “the Code on Real Estate Investment Trusts issued by the SFC, as the same may be modified, amended, supplemented, revised or replaced from time to time”.

The amendment will replace the definition of “**REIT Code**” with “the Code on Real Estate Investment Trusts issued by the SFC, as the same may from time to time be modified, amended, revised or replaced, or supplemented either by published guidelines, policies, practice statements or other guidance issued by the SFC or, in any particular case, by specific written guidance issued by the SFC in response to a specific request by the Manager and the Trustee”.

In the administration of the Code on Real Estate Investment Trusts and the regulation of real estate investment trusts authorised under Section 104 of the SFO (such as GZI REIT), the SFC may from time to time issue written or published guidelines, policies, practice statements or other guidance in connection with the Code on Real Estate Investment Trusts. The purpose of the amendment is to clarify the definition of “**REIT Code**” so as to reflect such regulatory practice, for the sake of completeness.

### *Trading day*

As a result of the proposed new definition of “**Market Price**” under the proposed new Clause 9.2, the Manager proposes to include in the Trust Deed a definition of “Trading Day”, which is to be defined as “any day on which the SEHK is open for the business of dealing in securities”. This is consistent with the current definition of “business day” under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), as used in the context of the Listing Rules provisions comparable to the proposed new Clause 9.2.

(See Special Resolution 14 in the EGM Notice.)

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## LETTER FROM THE BOARD

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### **Amendments to correct manifest errors**

The Manager notes that there are drafting errors in Clauses 14.5(f)(iii) and 19.3(a)(iv) of the Trust Deed and proposes the following amendments to correct such manifest errors:

- (a) Clause 14.5(f)(iii) — to move the last phrase to another line;
- (b) Clause 19.3(a)(iv) — to add the missing verb “be used” immediately after “Deposited Property”.

The Trustee certified that in its opinion the proposed amendments made to clauses 14.5(f)(iii) and 19.3(a)(iv) of the Trust Deed are necessary to correct manifest errors. Pursuant to Clause 36.1(a) of the Trust Deed, such amendments shall be made without the sanction of a Special Resolution.

### **Approvals Required**

#### *Expansion of geographical scope*

The authorisation under section 104 of SFO was granted on the condition that, among other things, GZI REIT must comply with the strategy of investing in properties in Guangdong province in the PRC as described in the IPO Offering Circular. However, the Manager notes that in its circular to management companies of SFC-authorized REITs dated 12 October 2007, the SFC has (among other things) clarified that in acquiring overseas properties or new types of properties, REIT managers do not have to seek re-approval of their licences or re-authorisation of the relevant REIT by the SFC before proceeding to make such acquisitions. Accordingly, the Manager has notified the SFC of its proposal to invest in properties in the PRC (including Hong Kong and Macau).

Under Paragraph 10.7(a)(v) of the REIT Code, a circular is required to be issued where there is a change in the general character or nature of a REIT, such as its investment objective and/or policy.

Under Clause 19.2 of the Trust Deed, the Manager may from time to time change its investment policy and objectives for GZI REIT but that it is required to notify the Unitholders of such change by way of a circular in accordance with the requirements of the REIT Code and to obtain the approval of the Unitholders for the change by a Special Resolution.

Accordingly, the Manager proposes to seek the necessary Unitholders' approval to expand the geographical scope of GZI REIT's investment policy, strategy and objective by way of a Special Resolution.

#### *Proposed amendments to the Trust Deed*

Clause 36.1 of the Trust Deed, read with paragraph 2.2 of Schedule 1 to the Trust Deed, provides that, save for certain limited exceptions as certified by the Trustee in writing, any

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## LETTER FROM THE BOARD

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modification, alteration or addition to the Trust Deed must be made with the sanction of a Special Resolution obtained at a meeting of Unitholders duly convened in accordance with Schedule 1 to the Trust Deed. The Manager and the Trustee are only entitled to modify, alter or add to the Trust Deed by a supplemental deed after the requisite approval of the Unitholders and the prior approval of the SFC are obtained.

The Manager is convening the EGM for the purposes of seeking the sanction of Special Resolutions by Unitholders for the Amendments. Pursuant to paragraph 3.3 of Schedule 1 to the Trust Deed, at any meeting a resolution put to the vote of the meeting shall be decided on a poll and the result of the poll shall be deemed to be the resolution of the meeting. The Special Resolutions will each be decided on a poll at the EGM.

The Directors consider that the Amendments are in the best interests of GZI REIT and the Unitholders as a whole, and accordingly, recommend all Unitholders to vote in favour of all of the resolutions to be proposed at the EGM.

The Trustee has confirmed to the Manager that the Amendments require the sanction of a Special Resolution in accordance with Clause 36.1 of the Trust Deed and that the Amendments will not impose upon any Unitholder any obligation to make further payment in respect of his outstanding Units or to accept any further liability in respect of his outstanding Units. Furthermore, the Trustee has no objection to the Amendments proposed by the Manager and accordingly, subject to the Unitholders' and the SFC's prior approvals, the Trustee will enter into a supplemental deed effecting the Amendments.

### **Possible Future Actions**

Subject to Special Resolution numbers 3, 6 and 14 set out in the EGM Notice being passed, the Manager may from time to time consider the possibility of GZI REIT issuing Convertible Instruments as a means of raising capital for its business activities, including for the funding of other acquisitions, such as the issue of the Proposed Convertible Bonds. If a decision is made for GZI REIT to issue the Proposed Convertible Bonds at Completion or to issue any Convertible Instruments and/or to acquire any real estate in the future, GZI REIT will comply with the relevant requirements of the REIT Code and other applicable laws and regulations in connection therewith.

## **II. CONNECTED PARTY TRANSACTIONS IN RELATION TO THE PROPOSED ACQUISITION OF THE NEW PROPERTY AND THE ISSUE OF CONSIDERATION UNITS**

### **1. INTRODUCTION**

On 14 January 2008, the Manager announced that the Vendor, the Guarantor, the Purchaser (i.e. the Trustee in its capacity as trustee of GZI REIT) and the Manager had entered into the Agreement.

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## LETTER FROM THE BOARD

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The purposes of this Circular are (i) to provide you with further information in respect of the Transactions; (ii) to set out the recommendation of the Independent Board Committee; (iii) to set out the recommendation of the Independent Financial Adviser to the Independent Board Committee, the independent Unitholders and the Trustee; and (iv) to serve notice of the EGM.

Further details of the Transactions are set out below.

### 2. THE AGREEMENT

#### (a) Date

GZI executed the Deed of Right of First Refusal in favour of the Trustee and the Manager under which GZI REIT was granted a right of first refusal to acquire certain properties (including the New Property) in accordance with the term and conditions therein. Notice of the proposed offer for sale of the New Property was given to GZI REIT on 20 November 2007 pursuant to the Deed of Right of First Refusal. After due consideration and based on advice prepared by the Property Adviser, the Manager has decided to pursue the Acquisition.

On 14 January 2008, the Vendor, the Guarantor, the Manager and the Purchaser (i.e. the Trustee in its capacity as trustee of GZI REIT) entered into the Agreement pursuant to which the Purchaser has agreed to acquire the entire issued share capital and Shareholder Loans of the BVI Company which, together with the Domestic JV Partner, holds the Property Company which in turn holds the New Property.

#### (b) Parties

- Vendor : Guangzhou Investment (China Property) Company Limited, an indirectly wholly-owned subsidiary of GZI.
- Purchaser : The Trustee, as trustee of GZI REIT.
- Guarantor : GZI, as guarantor of the Vendor's obligations and performance under the Agreement.
- Manager : The Manager, a wholly-owned subsidiary of GZI.

#### (c) BVI Company

Metrogold Development Limited, which is a company incorporated in the British Virgin Islands solely for the purpose of holding the Property Company. For the 9-month period ended 30 September 2007, the unaudited rental income and cost of revenue (excluding cost of sales of property units) of the BVI Company were approximately HK\$13.4 million and HK\$4.7 million respectively. The unaudited net profit (before and after tax) of the BVI Company for the 9-month period ended 30 September 2007 were approximately HK\$144.2 million and HK\$119.6 million respectively. The unaudited total assets and total liabilities of the BVI Company as at 30 September 2007 were approximately HK\$691.3 million and HK\$552.1 million respectively.

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## LETTER FROM THE BOARD

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Considering that the inclusion of a report made by accountants on the accounts of the BVI Company in this Circular would not provide any meaningful information to the Unitholders in their assessment of the Acquisition due to several reasons including but not limited to (i) the New Property is recently completed and has a limited operating track record; (ii) the predecessor cost structure is not indicative of how the New Property may perform under GZI REIT's ownership and management; (iii) in assessing the Acquisition, the Manager has taken into account various factors as stated in this Circular (e.g. as described in the section headed "Reasons for, and Benefits of, the Acquisition"), including considering the future rental income of the New Property. As the report made by the accountants covers a limited operating period, and rental income was only received in the second quarter of 2007, such a report does not allow the Manager to reasonably make an assessment about future rental income of the New Property, and is therefore not considered by the Manager to be material for the purposes of assessing the Acquisition, the Manager has applied to the SFC and the SFC has granted for a waiver from strict compliance with the requirements under Paragraphs 7.6(a), 7.6(b) and 10.10(i) of the REIT Code so that GZI REIT is not required to (a) have a report made by the accountants on the accounts of the BVI Company, on the basis described in Paragraphs 7.6(a) and 7.6(b) of the REIT Code; (b) include the said report in this Circular.

**(d) Property Company**

Guangzhou Jieyacheng Properties Co., Ltd., which is a sino-foreign co-operative joint venture established in the PRC with an approved business term extended from 24 January 2011 to 24 January 2031, formed solely for the purpose of holding and developing the New Property. The Property Company is the sole registered, legal and beneficial owner of the New Property with good and marketable legal and beneficial title. Pursuant to the transfer agreement relating to the restructuring or shareholding change exercise relating to the Property Company approved by the Development and Reform Commission and Foreign Trade and Economic Cooperation Bureau of Guangzhou, (i) the predecessor of the Domestic JV Partner has obtained all its economic benefit entitlements under the co-operative contract in relation to the Property Company and has accordingly legally designated the right to receive dividends and distribution in relation to the Property Company to the BVI Company; (ii) the Domestic JV Partner has given an irrevocable undertaking in favour of the BVI Company to vote in accordance with the BVI Company's direction.

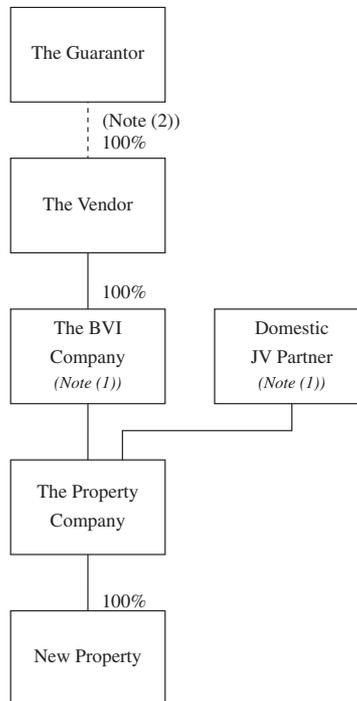
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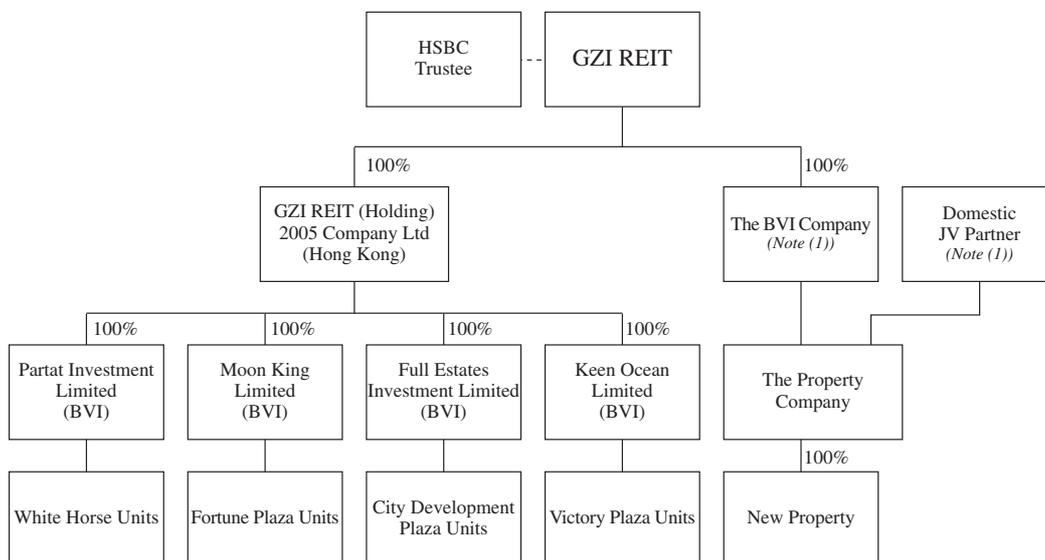
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(e) **Structure diagram**

(i) *Set out below is a structure diagram of the New Property before Completion*



(ii) *Set out below is a structure diagram of GZI REIT immediately after Completion*



*Note (1):* Pursuant to a restructuring exercise, (i) the predecessor of the Domestic JV Partner has legally designated the right to receive dividends and distribution in relation to the Property Company to the BVI Company; (ii) the Domestic JV Partner has given an irrevocable undertaking in favour of the BVI Company to vote in accordance with the BVI Company's direction.

*Note (2):* The Guarantor holds a 100% indirect interest in the Vendor.

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## LETTER FROM THE BOARD

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### (f) Assets Involved

The New Property, representing approximately 72.3% (based on Total Floor Area) of Yue Xiu Neo Metropolis Plaza (described as a Grade B commercial complex in the Independent Property Valuer's New Property Valuation Report), is a newly completed development located at Nos. 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256 and 258, Zhongshanliu Road, Yue Xiu District, Guangzhou City, Guangdong Province, the PRC. The remaining 27.7% (based on Total Floor Area) of the Building is owned by independent third parties, which are not connected persons of GZI REIT.

With its direct connection to the Ximenkou (西門口) underground metro station and close proximity to the Guangzhou urban area, the New Property is well-positioned to capitalize on the future growth of Guangzhou's office and retail market. The New Property comprises basement 1, ground floor to 4th floor of a commercial podium, a clubhouse on the 6th floor and an 18-storey office building with a 2-storey basement carparking spaces.

The Total Floor Area and Gross Rentable Area of the New Property are set out below:

Use	Total Floor Area (sq.m.)	Gross Rentable Area (sq.m.)
Commercial (Basement 1 — 4th Floor)	15,445.50	15,445.50
Office (5th Floor — 23rd Floor) excluding a clubhouse on the 6th Floor	34,441.75	34,441.75
Carparking spaces (Basement 2 — Basement 3) (Note (1)), (Note (2))	7,549.03	—
Others (including clubhouse and common facilities area) (Note (3))	4,528.06	—
Total	<u>61,964.34</u>	<u>49,887.25</u>

As at 31 October 2007, the occupancy rate of the New Property (excluding the carparking spaces) was approximately 75.1% with 60 tenants.

*Note (1):* The total floor area of the carparking spaces is approximately 7,621 sq.m. including approximately 72 sq.m. to be allocated to the predecessor of the Domestic JV Partner.

*Note (2):* The area of carparking spaces has not been included in the calculation of Gross Rental Area of the New Property. As at the Latest Practicable Date, there are a total of 106 carparking spaces available for rental purpose.

*Note (3):* Until a land premium is paid to the Guangzhou Administrative Bureau for Land Resources and Housing to change the relevant usage, the clubhouse and common facilities area should remain common facilities / areas and the Property Company holding such facilities / areas is not able to transfer or mortgage them. Change in control of the Property Company will not affect the Property Company's right and interest in relation to such facilities / areas.

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## LETTER FROM THE BOARD

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(See the Independent Property Valuer's New Property Valuation Report for a fuller description of the New Property.)

**(g) Property Valuation**

The Appraised Value of the New Property is RMB685,000,000 (See the Independent Property Valuer's New Property Valuation Report) (or approximately HK\$706,185,567).

**(h) Purchase Consideration**

The Acquisition Value which constitutes 13.9% of the unaudited total asset value of GZI REIT as at 30 June 2007 was determined after arm's length negotiations between the parties with reference to the Independent Property Valuer's New Property Valuation Report and represents a 4.1% discount to the Appraised Value of the New Property. The Purchase Consideration payable upon Completion (subject to adjustment as set out in this Circular) and the Manager's share of expenses incurred in the Transactions (the estimated expenses incurred in the Transactions of approximately HK\$22 million will be borne by the Vendor and the Manager (acting in its capacity as manager of GZI REIT and paying out of the assets of GZI REIT) in equal shares) will be satisfied in the manner set out below:

- (i) as to approximately HK\$203.2 million, by way of the issue and allotment of the Consideration Units to the Vendor or its nominated person upon Completion; and
- (ii) as to the remaining balance by way of payment in cash to the Vendor upon Completion.

Pursuant to the Agreement, an adjustment payment reflecting, inter alia, the difference between the combined net assets of the BVI Company and the Property Company as at 30 September 2007 and as at the Completion, will be made in accordance with the audited financial statements as of the date of Completion which is to be produced no later than 104 days from the date of Completion.

**(i) Completion**

Subject to the provisions of the Agreement and the fulfilment of the Conditions, Completion shall take place on a date to be specified in a notice from the Manager to the Vendor at least five (5) Business Days before such date, or such other date as the parties may mutually agree but in any event being a date no later than the Long Stop Date. The Manager will make further announcement of the Completion as soon as practicable after the Completion has taken place.

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## LETTER FROM THE BOARD

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**(j) Conditions Precedent**

Completion is subject to and conditional upon satisfaction of the following Conditions:

- (i) the obtaining of approval of the Unitholders in respect of the Transactions as connected party transactions in accordance with the REIT Code;
- (ii) the obtaining of all necessary corporate and regulatory approvals for or in respect of the Transactions including, without limitation, those required under the REIT Code and the Listing Rules, including, without limitation, the granting of approval for the listing of, and permission to deal in, the Consideration Units;
- (iii) satisfactory due diligence to be carried out by the Purchaser (acting through the Manager as well as its professional advisers) on the New Property (including the Tenancy Agreements (as defined in the Agreement)) and the BVI Company and the Property Company in accordance with the REIT Code and the compliance manual of the Manager, including but not limited to:
  - (a) a good, marketable, legal and beneficial title to the New Property having been shown by the Vendor;
  - (b) such other information with respect to the Companies and the New Property as the Purchaser reasonably thinks fit;
- (iv) the obtaining of an independent valuation on the New Property to be prepared by an independent property valuer in accordance with the REIT Code;
- (v) the obtaining of financing for the Acquisition on market terms and such other terms as are satisfactory to the Purchaser and (where applicable) all requisite consents and/or approvals for the Transactions as shall be required by the trustee of the Proposed Convertible Bonds;
- (vi) the obtaining of the requisite consents and/or approvals for the amendments of the Trust Deed from the relevant lenders;
- (vii) the obtaining of the requisite consents and/or approval (if any) in relation to the restructuring or shareholding change of the Property Company, including, without limitation, the approval of the Development and Reform Commission and Foreign Trade and Economic Cooperation Bureau of Guangzhou and completion of the relevant registration procedures and such other consents and/or approval as may be required under any relevant ordinance, statute, enactment, law or regulation and shall include orders, regulations, instruments, bye-laws or other subordinate legislation made under the relevant statute or statutory provision and production of satisfactory written evidence in relation thereto;

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## LETTER FROM THE BOARD

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- (viii) there being no compulsory acquisition or resumption of the New Property or any part of it, and no notice of such intended compulsory acquisition or resumption has been given, by the government or other competent authority prior to Completion;
- (ix) there being no material damage to the New Property and no material breach of the Warranties (as defined in the Agreement) which, in the sole opinion of the Purchaser acting on the recommendation of the Manager, will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of GZI REIT, any Company or on the New Property; and
- (x) there being no material change in the form and substance of all Tenancy Agreements.

Pursuant to the Agreement, the Purchaser may in its sole discretion waive in writing in whole or in part all or any of the Conditions. The Manager currently intends to issue the Proposed Convertible Bonds (with the terms and conditions yet to be finalized) pursuant to the power of the Manager to issue Units pursuant to Paragraph 12.2 of the REIT Code and Clause 7.5 of the revised Trust Deed (if approved) to fund part of the consideration for the Acquisition and the expenses incurred in the Transactions. The completion of the Proposed Convertible Bonds is not a condition precedent to the Acquisition. However, as mentioned above in this paragraph 2(j), the Acquisition is conditional upon, among other things, the Financing Condition being satisfied.

Subject to prevailing market conditions and the estimated cost involved, the Manager may obtain other sources of financing (for example, banking facilities) as a contingency to satisfy part or all of the consideration for the Acquisition in lieu of, or in addition to, the issuance of the Proposed Convertible Bonds but such other sources of financing may be more expensive than the Proposed Convertible Bonds.

If the Conditions are not satisfied or waived by the Purchaser on or before the Long Stop Date (which date may be extended by the parties to the Agreement), save for any claim arising from breach of undertaking and the costs relating to the Transactions as provided in the Agreement, the Agreement shall lapse and no party thereto shall have any claim against any other party thereto.

Pursuant to the Deed of Right of First Refusal, if the sale and purchase is not completed in accordance with the Agreement, GZI may, at its election, have the right either:

- (i) to sell the New Property to any third party within 12 calendar months after the lapsed event, at a price and on such terms in accordance with the Deed of Right of First Refusal; or
- (ii) to retain the New Property for investment purposes.

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## LETTER FROM THE BOARD

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(k) **Arm's Length Terms**

The Agreement was entered into by the parties thereto on normal commercial terms following arm's length negotiations.

The Manager has conducted, and is satisfied with the results of, due diligence in respect of the New Property carried out in accordance with the relevant provisions of the REIT Code and the Manager's compliance manual, including but not limited to, being satisfied that it has obtained a title report pertaining to the Acquisition from the Manager's PRC counsel that GZI REIT will hold good marketable legal and beneficial title to the New Property upon Completion.

(l) **Other issues**

(i) ***Unsettled Land Premium***

According to rules promulgated by Guangzhou Municipal People's Government and two supplemental agreements entered into between the Property Company and Guangzhou Administrative Bureau for Land Resources and Housing ("LAHO"), payment of land premium in relation to the use of basement floors and parts of the common facilities and areas of the Building has been deferred. To indemnify the Purchaser from Losses (as defined in the Agreement) which it may suffer as a result of or in connection with such unsettled land premium, the Guarantor will enter into a deed of indemnity upon Completion, in favour of the Purchaser. The maximum aggregate liability of the Guarantor under the said deed of indemnity and the Agreement (other than Losses which the Purchaser and/or the Manager may suffer as a result or in connection with deferred taxation relating to the New Property and other items specified in the Agreement) shall not exceed the Acquisition Value and no claim shall be brought by the Purchaser and/or the Manager for the said Losses unless written notice of such claim has been given to the Guarantor on or before the expiry of the period of six (6) years following the date of Completion.

(ii) ***Civil Defence Shelter***

As required under the PRC laws and regulations, there is a civil defence shelter in the New Property with an aggregate Gross Floor Area of approximately 3,921 sq.m. According to the PRC legal opinion provided by the Manager's PRC counsel,

(aa) although relevant laws and regulations have not stated clearly whether the ownership of the civil defence shelter belongs to the government or the developer, considering a Property Ownership Certificate of civil defence shelter was issued by LAHO to the Property Company, the ownership of the civil defence shelter belongs to the Property Company;

(bb) the Property Company leased the civil defence shelter to (廣州城建開發宏城車場物業管理有限公司) ("the Tenant"), and the Tenant has obtained a permit to use the civil defence shelter, for purposes of carparking spaces, for the period from 3 December 2007 to 3 December 2010;

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## LETTER FROM THE BOARD

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(cc) upon expiry of the term under item (bb), application should be made to Guangzhou civil defence shelter administration authority to renew the relevant term;

(dd) notwithstanding items (aa) and (cc), the Property Company has the right to lease the relevant area to tenant(s) for carparking spaces and/or to transfer its interest and rights in relation to the civil defence shelter to other entity(ies) according to the relevant PRC laws and regulations.

(iii) ***Deferred Taxation relating to the New Property***

To indemnify the Purchaser from Losses (as defined in the Agreement) which it may suffer as a result or in connection with any tax claims or liability in respect of profit resulting from any sale or deemed sale of the Property or the shares of the BVI Company and/or the Property Company charged or levied by any taxation authority in the PRC, the Guarantor will enter into a deed of indemnity upon Completion, in favour of the Purchaser. There is no minimum or maximum threshold to such indemnity provided that (aa) the Guarantor shall not be liable for that part of the deferred taxation attributable to the Property Company disposing of the New Property at a consideration higher than the Acquisition Value; (bb) no claim shall be brought by the Purchaser and/or the Manager for tax claims unless written notice of such claim has been given to the Guarantor on or before the expiry of the period of six (6) years following the date of Completion.

### 3. FINANCING FOR THE ACQUISITION

(a) **Consideration Units**

As mentioned in paragraph headed "Purchase Consideration" above, approximately HK\$203.2 million being part of the Purchase Consideration payable upon Completion will be satisfied by way of the issue and allotment of the Consideration Units. The Consideration Units will, upon issue be credited as fully paid, free from all encumbrances and, rank *pari passu* in all respects with the existing Units. The issue price of HK\$3.08 per Consideration Unit represents the Market Price which also represents:

- (i) closing price of HK\$3.08 per Unit as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) the average closing price of HK\$3.08 per Unit as quoted on the Hong Kong Stock Exchange for the 10 Trading Days up to and including the Last Trading Day; and
- (iii) a discount of approximately 7.8% to the unaudited consolidated net asset value per Unit as at 30 June 2007 of HK\$3.34.

The Consideration Units represent (i) 6.6% of GZI REIT's Unit base as at the Latest Practicable Date, (ii) 6.2% of GZI REIT's Unit base as enlarged by the Consideration Units and (iii) 5.5% of GZI REIT's Unit base as enlarged by the maximum number for new Units pursuant to the General Mandate. The Consideration Units are not subject to any lock up or any restrictions from disposal.

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## LETTER FROM THE BOARD

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Immediately after the issue and allotment of the Consideration Units, GZI's unitholding in GZI REIT will increase from 31.3% to 35.6%, while other Unitholders' interest in GZI REIT will be reduced from 68.7% to 64.4%, assuming no additional Units will be issued and without taking into account the potential dilution impact as a result of the issue of the Proposed Convertible Bonds which will be issued under the General Mandate.

Application will be made to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Consideration Units on the Main Board.

**(b) Cash Consideration**

The balance of the consideration payable for the Acquisition, together with the expenses incurred in the Transactions, will be satisfied in cash and funded by the proceeds from the issue of the Proposed Convertible Bonds and/or other sources of financing.

If the Proposed Convertible Bonds are issued, application will be made to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Proposed Convertible Bonds and the Units to be issued upon conversion of the Proposed Convertible Bonds and a separate announcement will be made to the Unitholders.

#### **4. REASONS FOR, AND BENEFITS OF, THE ACQUISITION**

The Manager believes that the Acquisition is in line with its objectives and acquisition growth strategy and will bring about a number of benefits as outlined below.

**(a) The Acquisition is in line with the Manager's strategy to enhance yields and net asset growth**

The Acquisition is in line with the Manager's acquisition strategy to invest in high quality income-producing office and commercial property assets that provide attractive yields (taking into account of the proposed financing) and the potential for net asset growth. On Completion, the Gross Rentable Area of GZI REIT's portfolio will be increased by approximately 31% from 160,145 sq. m. to 210,032 sq. m. (excluding the carparking spaces).

**(b) The Acquisition Value for the BVI Company is priced at a discount to the Appraised Value**

The Acquisition Value for the BVI Company is priced at a 4.1% discount to the Appraised Value. This is compared with the initial consideration and the appraised value of the Existing Properties of HK\$4,014 million and HK\$4,005 million as disclosed in the IPO Offering Circular.

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## LETTER FROM THE BOARD

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**(c) Further diversification of tenant base with stable and growing rentals**

The Manager will endeavor to increase the property yield of GZI REIT's property portfolio and correspondingly, the net asset value per Unit by actively managing the portfolio. The proposed Acquisition is expected to further diversify the tenant profile and rental mix of GZI REIT. A significant portion of the tenancies consist of major international and domestic tenants such as E-go Digital World, Ping An Insurance, GOME Electric Appliance, Bank of China and Fairwood Fast Food (See the paragraph headed "10 Largest Tenants in terms of Total Monthly Base Rent" in this Circular). Certain rentable areas are let out under long leases which facilitate stable cash flow. A majority of the long leases also contain provisions for upside in rental revenues through step-ups in the base rent (See the paragraph headed "Existing Leases Expiry Profile" in the section headed "Information on the New Property" in this Circular).

**(d) Upside potential for increase in occupancy rate**

According to the 2007 interim report of GZI REIT, the overall occupancy rate of the Existing Properties is 98.0%. According to the valuation report of the New Property prepared by the Independent Property Valuer, the current occupancy rate for the New Property (excluding the carparking spaces) is 75.1% (based on leased Gross Rental Area in sq. m.). Leveraging on the prime location of the Building as well as its good access to major roads and public transportation facilities, the Manager will endeavour to optimize rental and occupancy rates of the New Property through actively managing new lease opportunities, maximizing tenancy retention and other proactive asset management initiatives. As the Building is a newly completed development, the Manager expects that there is still potential for growth in rental income if the occupancy rate of the New Property is to reach the level of the Existing Properties.

**(e) Control of the New Property**

The New Property has a Total Floor Area of approximately 61,964.34 sq. m. which represents approximately 72.3% of the Total Floor Area of the Building. GZI REIT will effectively be the single largest landlord in the Building. The remaining units of the Building are owned by independent third parties which are not connected persons of GZI REIT.

**(f) The New Property currently enjoys some tax breaks**

Effective from 30 September 2007, the Property Company enjoys three (3) years of full exemption from URET.

**(g) Opportunity to expand GZI REIT's investment portfolio**

Since the listing of GZI REIT, the Manager has carried out market studies and analysis on certain commercial and office projects with a view to explore and assess acquisition opportunities. At the same time, the Manager is also paying close attention to

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## LETTER FROM THE BOARD

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a series of policies and measures introduced by the PRC Government which are intended to cool down the heated property market. GZI REIT is the first PRC pure-play REIT in Hong Kong, the Manager has established a long-term aspiration in its investment objective. Upon Completion, GZI REIT will have obtained all the requisite approvals and licenses for the expansion of its investment.

**(h) Increased exposure to the growing Guangzhou office and retail market**

According to the Guangzhou Statistics Bureau, the gross domestic product of Guangzhou in the nine-month period ended 30 September 2007 was approximately RMB500 billion, which is approximately 14.5% higher than the corresponding period in 2006. According to the Independent Property Valuer, office rental in Guangzhou has increased by about 15% year-on-year in the third quarter of 2007. Currently, GZI REIT owns 4 properties in the key commercial districts in Guangzhou. With the acquisition of the strategically-located New Property, GZI REIT's presence in Guangzhou's office/retail market will be further enhanced.

### **5. FINANCIAL EFFECTS OF THE ACQUISITION**

**(a) Rental Income**

In the absence of a profit forecast, the Manager is unable to quantify precisely the effect of the Acquisition on GZI REIT's rental income. However, based on information contained in the Independent Property Valuer's New Property Valuation Report in Appendix 3 to this Circular and in particular the average monthly rent per sq.m. and the gross rentable areas of commercial and office spaces respectively (excluding carparking spaces), the Manager estimates that the total monthly rental income of the New Property in October 2007 was approximately RMB3 million. On the assumption that there is no increase in occupancy rates, no rental defaults, no renewal of contracted leases and if completion of the acquisition occurred on 31 December 2007 the Manager anticipates the New Property will yield an additional RMB38 million in rental income for GZI REIT in 2008. On the same basis if the occupancy rate was to rise to 85%, estimated rental income from the New Property will be approximately RMB41 million.

The Manager anticipates that rental income will increase further if the occupancy rate and the average rent per sq.m. were to increase in the future.

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## LETTER FROM THE BOARD

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### (b) Leverage Ratio

Based on the unaudited interim condensed financial statements of GZI REIT as at 30 June 2007 and the latest available unaudited accounts of the BVI Company as at 30 September 2007, if the consideration for the Acquisition (assuming there is no adjustment to the Acquisition Value) of approximately HK\$677.3 million will be financed by way of issuing Consideration Units for approximately HK\$203.2 million and issuing of the Proposed Convertible Bonds or other borrowings for approximately HK\$474.1 million, the Manager anticipates that immediately upon completion of the Acquisition:

- the fair value of the assets of GZI REIT will increase from approximately HK\$4,862 million to approximately HK\$5,792 million
- the fair value of the borrowings of GZI REIT will increase from approximately HK\$1,285 million to approximately HK\$1,759 million<sup>1</sup>
- the leverage ratio of GZI REIT will increase from approximately 26.4% to approximately 30.4%

<sup>1</sup> For the avoidance of doubt, net assets attributable to Unitholders do not form part of, and have not been included in, the total borrowings.

Upon completion of the Acquisition, the identifiable assets and liabilities of the BVI Company will be accounted for in the consolidated financial statements of GZI REIT at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard 3 “Business Combinations”.

GZI REIT will assess the fair value of the identifiable assets and liabilities of the BVI Company as at Completion. The amounts of the fair value of the assets and liabilities of the BVI Company at Completion may be different from the current estimation. Hence the amounts as presented above may be different.

In addition, in light of the current rental income of the New Property and the conditions in the property market in Guangzhou and the potential of the New Property benefiting from the improved occupancy, the Manager believes that the Acquisition will contribute to the total distribution of GZI REIT but the quantification of such impact will depend on the future performance of the New Property.

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## LETTER FROM THE BOARD

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### (c) Illustrative effects on Unitholding structure

	As at Announcement Date	Immediately after the issue and allotment of the Consideration Units	Assuming the Proposed Convertible Bonds will be issued to independent third party investors at a X% conversion premium to the Market Price			
			Illustrative example I: X = 15	Illustrative example II: X = 20	Illustrative example III: X = 25	Illustrative example IV: X = 30
Number of Units owned by GZI (million units)	313	379	379	379	379	379
Number of Units owned by holders of Proposed Convertible Bonds (million units)	—	—	134	131	126	121
Issued Units (million units)	1,000	1,066	1,200	1,197	1,192	1,187
<b>GZI's unitholding in GZI REIT (%)</b>	31.3%	35.6%	31.6%	31.7%	31.8%	31.9%
<b>Proposed Convertible Bonds holders' interest in GZI REIT (%)</b>	0.0%	0.0%	11.2%	11.0%	10.6%	10.2%
<b>Other Unitholders' interest in GZI REIT (%)</b>	68.7%	64.4%	57.2%	57.3%	57.6%	57.9%

*Note:* Assuming the Proposed Convertible Bonds are fully converted into new Units and, including the Consideration Units already issued, will not exceed the threshold allowed under the General Mandate. In the case where total number of Units being issued would exceed the threshold allowed under the General Mandate, bank borrowings will be used to finance the remaining part of the Consideration.

For illustrative example I, the 20% General Mandate is fully used up for issue of the Proposed Convertible Bonds and the Consideration Units.

The Manager does not intend to issue the Proposed Convertible Bonds at a conversion discount.

### (d) Net assets attributable to Unitholders

	As at 30 June 2007	Immediately after the issue and allotment of the Consideration Units
Net assets attributable to Unitholders (HK\$ million)	3,335	3,538
Issued Units (million units)	1,000	1,066
Net asset value per Unit attributable to Unitholders (HK\$)	3.335	3.319

Immediately after the issue and allotment of the Consideration Units not taking into account GZI REIT's trading results or other transactions entered into subsequent to 30 June 2007, the Manager anticipates that the net asset value per Unit attributable to Unitholders will decrease by 0.5% to HK\$3.319 from HK\$3.335.

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## LETTER FROM THE BOARD

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**(e) Distribution may comprise a partial payment of inter-company loans due from the Property Company to the BVI Company**

The repatriation of income from the New Property may be in the form of dividends, interest received and/or repayment of an inter-company loan from the Property Company to the BVI Company. Based on the current PRC accounting standards, depreciation of properties is a mandatory expense at the Property Company level when determining the net profits from operations that would be available for distribution. In addition, according to PRC laws, the Property Company shall contribute statutory common reserve fund an amount which is 10% of its profits after tax. These effectively trap cash in the Property Company. However, under the Hong Kong Financial Reporting Standards (“HKFRS”), the New Property is regarded as an investment property carried at valuation and hence is not depreciated. Accordingly, such depreciation will be reversed under the HKFRS and not accounted for when determining the net profit of the BVI Company. To distribute this portion, there is a need to extract the cash that is trapped in the Property Company in the form of depreciation expense and contribution to statutory common reserve fund. Hence a principal repayment of the inter-company loan will be made from the Property Company to the BVI Company as and when necessary. As at the date of the Agreement, there is an inter-company loan of HK\$138 million (with no fixed repayment terms and part of it bears interest at HIBOR plus 1% per annum) due from the Property Company to the BVI Company. Through these arrangements, assuming that (i) conversion of the inter-company loan of HK\$138 million to RMB is duly and fully completed; and (ii) there is no change in the PRC accounting standards, until the principal amount of the inter-company loan is fully repaid (it is estimated that the inter-company loan will be paid-off in approximately eight (8) years), the distribution payment to Unitholders will not be affected by the aforementioned trapped cash in the PRC. If the conversion of the inter-company loan of HK\$138 million into RMB cannot be completed before the date of Completion, the Property Company may repay the unconverted part of the inter-company loan in HK Dollars on or before the date of Completion. In such event, the number of years required to fully repay the balance of the principal amount of the inter-company loan will be shorter than eight (8) years. If there is a change of PRC accounting standards so that the New Property is regarded as an investment property and is not depreciated, cash will not be trapped in the Property Company in the form of depreciation expenses but given the tax effect of the matter, the total distributable income available for distribution may be reduced.

### **6. INFORMATION ON THE NEW PROPERTY**

**(a) Business plan in relation to the New Property**

The nature and risks of the New Property are essentially the same as those of the Existing Properties as described in the section headed “Risk Factors — Risk Relating to Investing in Real Estate” and “Risk Relating to the PRC” in the IPO Offering Circular.

The Manager proposes to adopt its existing asset management strategy for the New Property. For further details of the Manager’s existing asset management strategy, please refer to the sections headed “Strategy” in the IPO Offering Circular.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Manager had no specific plans for renovation or improvement of the New Property save for the enhancement of electricity supply the cost of which will be borne by the Vendor.

Based on information available to the Manager as at the Latest Practicable Date, no major renovation has been carried out for the New Property since its completion. As at the Latest Practicable Date, the Manager was also not aware of any zoning, re-zoning or any other significant development programmes in the area surrounding the New Property.

As at the Latest Practicable Date, save as disclosed in this Circular, none of the Gross Rentable Area in respect of the New Property was being leased by connected persons of GZI REIT.

### (b) Certain Key Information

The table below sets out certain key information on the New Property.

<b>New Property</b>	
<b>Address</b>	Nos. 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256 and 258, Zhongshanliu Road, Yue Xiu District, Guangzhou City, Guangdong Province, the PRC.
<b>Date of Completion</b>	28 April 2007
<b>Occupancy Rate</b>	75.1% as at 31 October 2007 (based on leased Gross Rentable Area in sq.m.) excluding the carparking spaces
<b>Number of carparking spaces</b>	106
<b>Total Floor Area (excluding the carparking spaces)</b>	54,415.31 sq.m.
<b>Gross Rentable Area (excluding 7,549.03 sq.m. carparking spaces and 4,528.06 sq.m. in clubhouse and common facilities area)</b>	49,887.25 sq.m.
<b>Acquisition Value of the BVI Company and the Shareholder Loans</b>	Approximately HK\$677.3 million (or approximately HK\$10,931 per sq.m.), based on the Total Floor Area of 61,964.34 sq.m.
<b>Ownership holding of GZI REIT in the Building</b>	Approximately 72.3% of the total floor area of the Building of approximately 85,750.76 sq.m.

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## LETTER FROM THE BOARD

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<b>New Property</b>	
<b>Term of land use right</b>	Commercial — 40 years commencing from 22 November 2005  Office — 50 years commencing from 22 November 2005  Carparking spaces — 50 years commencing from 22 November 2005
<b>Appraised Value (As at 31 October 2007)</b>	RMB685 million (or approximately HK\$706.2 million) (or HK\$11,396 per sq.m.), based on the Total Floor Area of approximately 61,964.34 sq.m.
<b>Number of Tenants (As at 31 October 2007)</b>	60 tenants
<b>Average Rent per sq. m.</b>	Office: approximately RMB79.18 per sq. m. based on the total monthly office rental as at 31 October 2007 as divided by the leased Gross Rentable Area (excluding commercial area and carparking spaces)  Commercial: approximately RMB96.81 per sq. m. based on the total monthly commercial rental as at 31 October 2007 as divided by the leased Gross Rentable Area (excluding office area and carparking spaces)
<b>Gross Rentable Area Leased to Top 10 Tenants as a percentage of total Gross Rentable Area as at 31 October 2007</b>	approximately 50.15%
<b>Aggregate Monthly Base Rent from Top 10 Tenants as a percentage of the Total Monthly Base Rent as at 31 October 2007</b>	approximately 68.18%

The terms of the existing tenancies under the New Property are broadly in line with the Guangdong Province market practice for office tenancies. The lease terms for the New Property are generally 2 to 10 years, which reflects the general practice in the Guangdong Province property market for office tenancies. Certain tenants are granted options to renew their tenancies at expiry, based on prevailing market rates at the time of renewal. The tenancy agreements do not generally give tenants the right to terminate their tenancies prior to their scheduled expiration dates. The other terms of such tenancies are broadly in line with those under the Existing Properties. The Manager is of the view that there are no unusual or onerous terms in the existing tenancies under the New Property.

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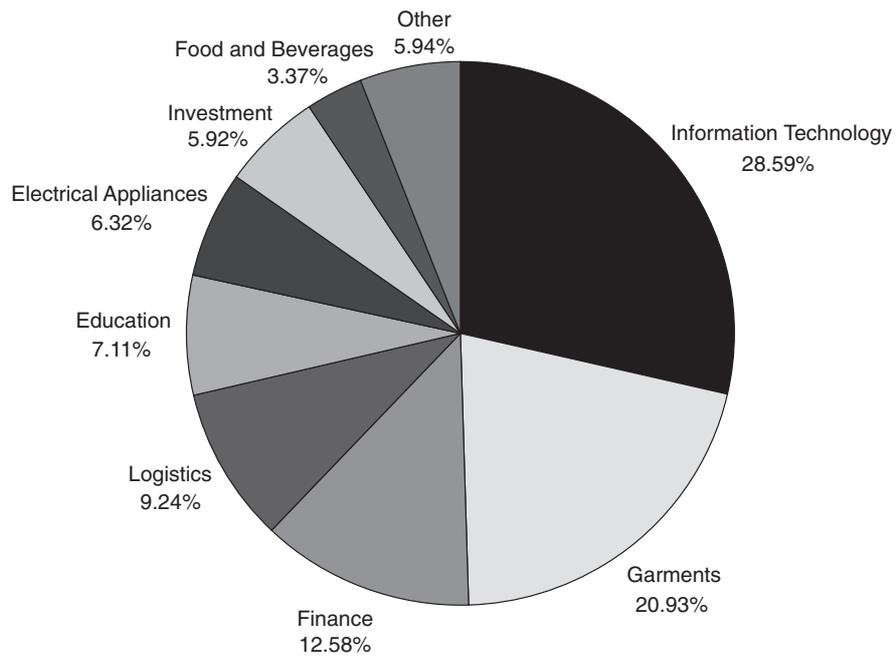
## LETTER FROM THE BOARD

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(c) **Gross Rental Area occupied by each business sub-sector**

The following chart illustrates the percentage of the total Gross Rentable Area of the New Property as at 31 October 2007 occupied by tenants in each of the identified business sub-sectors:

**Gross Rentable Area occupied by each business sub-sector**



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## LETTER FROM THE BOARD

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### (d) 10 Largest Tenants in terms of Total Monthly Base Rent

The table below sets out information on the 10 largest tenants in terms of total monthly base rent for 31 October 2007:

Ranking	Tenant	Business Sector	Expiry date	Percentage of Total Monthly Base Rent
1.	廣州頤正信息科技集團有限公司 (越秀分公司)	Information Technology	2016-12-31	23.18%
2.	中國平安人壽保險股份有限公司 廣州分公司	Insurance	2012-11-30	8.15%
3.	廣州高山文化培訓學校	Education	2010-7-31	5.79%
4.	天地國際運輸代理(中國)有限公司	Logistics	2009-5-31	5.57%
5.	廣州市國美電器有限公司	Electrical Appliances	2013-8-21	5.57%
6.	恒德利服裝有限公司廣州分公司	Garments	2012-10-31	4.79%
7.	丁燦輝	Garments	2010-10-31	4.64%
8.	中國銀行股份有限公司 廣州廣東國際大廈支行	Finance	2011-12-31	4.45%
9.	上海瑞可利投資諮詢有限公司	Information Technology	2009-10-31	3.62%
10.	深圳大快活快餐有限公司	Food and Beverages	2015-6-30	2.42%
	10 largest tenants			68.18%
	Other tenants			31.82%
	Total			100.00%

*Note:* None of these tenants is a connected person of GZI REIT.

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## LETTER FROM THE BOARD

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(e) **Existing Leases Expiry Profile**

The table below sets out information on existing leases at the New Property that will expire during the periods indicated:

<u>Period (year)</u>	<u>Number of leases expiring</u>	<u>Percentage of number of leases expiring</u>	<u>Leases on Gross Rentable Area</u>	<u>Percentage of leases on Gross Rentable Area</u>
2008	1	1.67%	338.38	0.90%
2009	13	21.67%	5,363.21	14.33%
2010	34	56.67%	12,830.81	34.27%
2011	2	3.33%	730.28	1.95%
2012	6	10.00%	5,955.68	15.91%
2013	2	3.33%	3,131.30	8.36%
2014	0	0.00%	0	0.00%
2015	1	1.67%	813.31	2.17%
2016	0	0.00%	0	0.00%
2017	1	1.66%	8,274.94	22.11%
after 2017	0	0.00%	0	0.00%
<b>Subtotal</b>	<u>60</u>	<u>100.00%</u>	<u>37,437.91</u>	<u>100.00%</u>

## 7. FEES AND CHARGES IN RELATION TO THE NEW PROPERTY

(a) **Fees payable to the Manager and the Trustee in relation to the Acquisition**

The Manager and the Trustee are not entitled to and will not receive any acquisition fee in relation to the Acquisition.

(b) **Ongoing fees and charges in relation to the New Property following Completion**

Upon Completion, the Manager will have the general power of management over the New Property and will be entitled under the Trust Deed to receive from GZI REIT management fees attributable to the New Property. The Manager will be entitled to management fees for as long as the New Property forms part of GZI REIT's investment portfolio in accordance with provisions of the Trust Deed. Subject to the passing of a Special Resolution as to the amendments to the Trust Deed, the Manager may elect to receive the management fees attributable to the New Property in cash or in Units.

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## LETTER FROM THE BOARD

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Upon Completion, the Manager will appoint the Property Manager to manage, supervise, maintain and market the New Property, subject to the overall management and supervision of the Manager, upon the terms and conditions set out in the Tenancy Services Agreement.

For further details of the nature of the management and other fees payable to the Manager and the Property Manager respectively, please refer to the sections headed “OFFERING CIRCULAR SUMMARY — Manager’s Fees” and “OFFERING CIRCULAR SUMMARY — Leasing Agent’s Fees” in the IPO Offering Circular. In addition to the above, various other customary expenses and other outgoings will arise in the ordinary course of business of managing and operating the New Property, which pursuant to the Trust Deed or the Tenancy Services Agreement (as the case may be) will be charged to GZI REIT as has been the case for the Existing Properties.

### **8. IMPLICATIONS UNDER THE REIT CODE AND THE TRUST DEED**

#### **(a) Approval by Ordinary Resolution required**

Clause 31.1 of the Trust Deed requires any connected party transaction to be carried out in accordance with the provisions of the REIT Code and any conditions (including any conditions of waivers and exemptions from the operation of the REIT Code granted by the SFC from time to time) imposed by the SFC from time to time.

Both the Vendor and the Manager are wholly owned subsidiaries of GZI and are connected persons of GZI REIT and each of the Transactions constitutes a connected party transaction of GZI REIT under Paragraph 8.11 of the REIT Code.

Further, Paragraph 12.2 of the REIT Code requires Unitholders’ approval by way of an Ordinary Resolution where units are issued to a connected person or in relation to a connected party transaction that requires Unitholders’ approval under Chapter 8 of the REIT Code.

Accordingly, pursuant to the REIT Code and the Trust Deed, each of the Transactions will require Unitholders’ approval by way of an Ordinary Resolution. Further, as the issue of the Consideration Units is an integral part of the terms and structure of the Acquisition, Unitholders’ approval for the Transactions has been incorporated into one Ordinary Resolution. (See the EGM Notice for the proposed Ordinary Resolution in relation to the Transactions.)

#### **(b) Restrictions on Voting**

Paragraph 8.11 of the REIT Code provides that where a Unitholder has a material interest in the transaction tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

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## LETTER FROM THE BOARD

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Further, under Paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the transaction tabled for approval at a general meeting of GZI REIT, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its Units or being counted in the quorum for the general meeting.

Pursuant to the REIT Code and the Trust Deed, by virtue of GZI's material interest or deemed material interest in the Transactions, GZI shall abstain from voting on the Ordinary Resolution to approve the Transactions. GZI has agreed that it will abstain, and will procure each of the member of the GZI Associates to abstain from voting on the Ordinary Resolution to approve the Transactions.

As at the Latest Practicable Date,

- (a) GZI was deemed to be interested in 313,280,495 Units (representing approximately 31.3% of the Units in issue) which were directly held by its wholly-owned subsidiary, Dragon Yield;
- (b) Yue Xiu Group (other than GZI) was deemed to be interested in 12,706,585 Units (representing approximately 1.3% of Units in issue).

To the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager takes the view that save as disclosed above, no other Unitholder is required to abstain from voting at the EGM in respect of the Transactions.

### 9. RECOMMENDATIONS

After taking into consideration the reasons for, terms of and other information provided to the Trustee by the Manager in relation to the Acquisition, the Trustee confirms that the Acquisition is consistent with GZI REIT's established investment policy and has given its consent for the Manager to proceed with the Acquisition.

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to, the proposed Transactions, as described in this Circular, the Directors (including the independent non-executive Directors) consider that the Transactions are on normal commercial terms, in the ordinary course of business and are fair and reasonable and in the interests of Unitholders as a whole, and recommend that Unitholders vote at the EGM in favour of the Ordinary Resolution to approve the Transactions.

The Independent Board Committee has been established by the Board to advise the independent Unitholders on the Transactions. Yu Ming Investment Management Limited has been appointed as Independent Financial Adviser to provide its opinion on these matters to the Independent Board Committee, the independent Unitholders and the Trustee.

Your attention is drawn to the "Letter from the Independent Board Committee" set out in this Circular, which contains the Independent Board Committee's recommendation to the

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## LETTER FROM THE BOARD

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independent Unitholders, the “Letter from the Independent Financial Adviser” set out in this Circular, which contains the Independent Financial Adviser’s advice to the Independent Board Committee, the independent Unitholders and the Trustee and the Independent Property Valuer’s New Property Valuation Report, which contains the Independent Property Valuer’s opinion of the value of the New Property.

The Independent Board Committee recommends that the independent Unitholders vote at the EGM in favour of the Ordinary Resolution to approve the Transactions.

Based and in sole reliance on (1) the information and assurances provided by the Manager; (2) the opinion of Yu Ming Investment Management Limited; and (3) the Letter from the Independent Board Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that the Transactions are fair and reasonable so far as the Unitholders are concerned. This view is being furnished for the sole purpose of complying with Clause 10.10 (o) of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the Transactions or of any statements or information made or disclosed in the Circular.

The Trustee has not made any assessment of the merits or impact of the Transactions, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges Unitholders who are in any doubt as to the merits or impact of the Transactions to seek their own financial or other professional advice.

### III. CONTINUING CONNECTED PARTY TRANSACTIONS

Upon completion of the Acquisition, GZI REIT will enter into the following transactions with different parties which are connected persons of GZI REIT as a result of their connection with the Manager:

#### 1. LEASING TRANSACTIONS

The Property Company has entered into a tenancy agreement with the Tenant in relation to certain carparking spaces at the New Property. This tenancy agreement was entered into in the ordinary and usual course of business of the Property Company, on normal commercial terms and was based on market pricing. As the Tenant is a subsidiary of GZI and therefore a connected person of GZI REIT, upon Completion this tenancy agreement will become and constitute a connected party transaction of GZI REIT under Paragraph 8.11 of the REIT Code.

#### 2. PROPERTY MANAGEMENT ARRANGEMENTS

The Property Manager has been appointed to manage the common areas in the Building. The relevant property management agreement(s) were entered into in the ordinary and usual course of business of the Property Company, on normal commercial terms and based on market pricing. As the tenants in the New Property (and not the Property Company) pay the property management fees to the Property Manager, no caps are required in respect of such property management fees.

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## LETTER FROM THE BOARD

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### 3. TENANCY SERVICES AGREEMENT

GZI REIT will enter into a Tenancy Services Agreement in respect of the New Property with the Property Manager which is a subsidiary of GZI and therefore a connected person of GZI REIT. The Property Manager is currently managing 3 properties out of the Existing Properties and the tenancy services transaction constitutes a connected party transaction of GZI REIT under Paragraph 8.11 of the REIT Code. The Tenancy Services Agreement will be entered into as has been the case for the Existing Properties which has been on normal commercial terms and was based on market pricing.

### 4. WAIVERS GRANTED AND CONDITIONS IMPOSED

Subject to certain conditions (including but not limited to the following conditions), the SFC has granted waivers from strict compliance with the disclosure and approval requirements under Chapter 8 of the REIT Code in respect of, inter alia, the leasing transactions, the property management arrangements in relating to the Existing Properties and tenancy services transactions between the Group and persons which are connected with GZI REIT as a result of their connection with the Manager:

(a) ***Annual caps***

In any relevant Financial Year, the annual value of the leasing transactions and the Tenancy Services Agreements shall not exceed the respective annual cap amounts set out in the IPO Offering Circular.

(b) ***Initial Waiver Period***

The waivers for such connected party transactions will be for an initial duration commencing from the Listing Date and ending on 31 December 2008 ("Initial Waiver Period").

For the property management arrangements in respect of the New Property, the Manager has applied to the SFC for a waiver from strict compliance with the disclosure and Unitholders' approval requirements under Chapter 8 of the REIT Code subject to the same compliance requirements and conditions as those for the property management arrangements in respect of the Existing Properties provided that such waiver conditions shall be extended to a period up to 31 December 2010 and no caps are required.

### 5. INCREASE THE ANNUAL CAPS AND EXTEND THE INITIAL WAIVER PERIOD

With the Acquisition and the increase of the scale of GZI REIT's operation, the Board seeks to (a) increase the relevant annual caps for leasing transactions and the Tenancy Services Agreements as set out below; and (b) extend the Initial Waiver Period for a period up to and including 31 December 2010.

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## LETTER FROM THE BOARD

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### 6. INCREASE THE ANNUAL CAPS AND THE REASONS BEHIND

#### *Leasing transactions*

<b>For the year ending 31 December 2008</b>	<b>For the year ending 31 December 2009</b>	<b>For the year ending 31 December 2010</b>
HK\$4,061,000	HK\$4,189,000	HK\$4,777,000

*The proposed caps are rounded up to the nearest thousand for easy reference.*

#### *Tenancy Services Agreements*

<b>For the year ending 31 December 2008</b>	<b>For the year ending 31 December 2009</b>	<b>For the year ending 31 December 2010</b>
HK\$18,149,000	HK\$19,964,000	HK\$21,960,000

*The proposed caps are rounded up to the nearest thousand for easy reference.*

The annual caps for the leasing transactions have been determined with general reference to the historical data for the last 3 years and based on the anticipated aggregate value of such transactions together with the transaction value related to the carparking spaces in the New Property during the relevant financial periods. A buffer of 20% has been included in the caps for contingencies such as: (i) changes in rental or other market conditions; (ii) appreciation of RMB; and/or (iii) differences in pricing or other relevant practices or policies of GZI REIT compared with those applicable when the New Property and/or the Existing Properties were controlled by GZI REIT's predecessors. The Manager expects that the value of the leasing transactions for the year ended 31 December 2008 will not exceed the cap previously approved at the time of listing in 2005 and hence no revision is needed.

The annual caps for the Tenancy Services Agreements have been determined with reference to the projected annual gross income of the relevant properties assuming:

- (a) the annual rental growth rate remains constant at 10% for the relevant financial periods;
- (b) property management fees for all properties of GZI REIT, with the exception of White Horse Units, will be 4% of annual gross income;
- (c) property management fees for White Horse Units will be 3% of its annual gross income; and

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## LETTER FROM THE BOARD

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- (d) a buffer of 20% has been included in the caps for contingencies such as: (i) changes in market conditions; (ii) appreciation of RMB; and/or (iii) differences in pricing or other relevant practices or policies of GZI REIT compared with those applicable when the New Property and/or the Existing Properties were controlled by GZI REIT's predecessors.

### 7. IMPLICATIONS

(a) ***Approval by Ordinary Resolution required***

It is one of the conditions for granting of the waivers for the connected party transactions listed above that the Manager may from time to time seek to increase one or more of the annual caps set out in the IPO Offering Circular and/or extend the Initial Waiver Period provided that, inter alia, that the Manager obtains the approval of independent Unitholders by way of an Ordinary Resolution.

(b) ***Restrictions on Voting***

Paragraph 8.11 of the REIT Code provides that where a Unitholder has a material interest in the transaction tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

Further, under Paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the transaction tabled for approval at a general meeting of GZI REIT, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its Units or being counted in the quorum for the general meeting.

Pursuant to the REIT Code and the Trust Deed, by virtue of GZI's material interest or deemed material interest in the Increase, GZI shall abstain from voting on the Ordinary Resolution to approve the Increase. GZI has agreed that it will abstain, and will procure each of the member of the GZI Associates to abstain, from voting on the Ordinary Resolution to approve the Increase.

As at the Latest Practicable Date,

- (a) GZI was deemed to be interested in 313,280,495 Units (representing approximately 31.3% of the Units in issue) which were directly held by its wholly-owned subsidiary, Dragon Yield;
- (b) Yue Xiu Group (other than GZI) was deemed to be interested in 12,706,585 Units (representing approximately 1.3% of Units in issue).

To the best of the Manager's knowledge, information and belief, after having made reasonable enquiries, the Manager takes the view that save as disclosed above, no other Unitholder is required to abstain from voting at the EGM in respect of the Increase.

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## LETTER FROM THE BOARD

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### 8. RECOMMENDATIONS

Yu Ming Investment Management Limited has been appointed as Independent Financial Adviser to provide its opinion on these matters to the Independent Board Committee, the independent Unitholders and the Trustee. Your attention is drawn to the “Letter from the Independent Board Committee” set out in this Circular, which contains the Independent Board Committee’s recommendation to the independent Unitholders, and the “Letter from the Independent Financial Adviser” set out in this Circular, which contains the Independent Financial Adviser’s advice to the Independent Board Committee, the independent Unitholders and the Trustee.

The Independent Property Valuer has confirmed that the rents payable under the leasing transactions described in paragraph III(1) were at the prevailing market levels when the leases were entered into and that the other terms are normal commercial terms. The Directors (including the independent non-executive Directors) consider that:

- (a) the proposed increase of the annual caps and the proposed extension of the Initial Waiver Period are fair and reasonable having regard to the interests of the Unitholders as a whole;
- (b) the relevant connected party transactions have been or will be entered into (i) in the ordinary and usual course of business of GZI REIT; and (ii) on normal commercial terms and are fair and reasonable and in the interests of the Unitholders as a whole; and
- (c) the relevant connected party transactions will still be subject to the existing waiver conditions,

and recommend that the independent Unitholders vote at the EGM in favour of the Ordinary Resolution to approve the Increase.

Your attention is drawn to the “Letter from the Independent Board Committee” set out in this Circular, which contains the Independent Board Committee’s recommendation to the independent Unitholders, and the “Letter from the Independent Financial Adviser” set out in this Circular, which contains the Independent Financial Adviser’s advice to the Independent Board Committee, the independent Unitholders and the Trustee.

The Independent Board Committee recommends that the independent Unitholders vote at the EGM in favour of the Ordinary Resolution to approve the Increase.

Based and in sole reliance on (1) the information and assurances provided by the Manager; (2) the opinion of Yu Ming Investment Management Limited; and (3) the Letter from the Independent Board Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that the relevant connected party transactions are fair and reasonable so far as the Unitholders are concerned. This view is

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## LETTER FROM THE BOARD

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being furnished for the sole purpose of complying with Clause 10.10(o) of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the relevant connected party transactions or of any statements or information made or disclosed in the Circular.

The Trustee has not made any assessment of the merits or impact of the relevant connected party transactions, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges Unitholders who are in any doubt as to the merits or impact of the relevant connected party transactions to seek their own financial or other professional advice.

#### **IV. GENERAL**

##### **1. EXTRAORDINARY GENERAL MEETING**

The EGM will be held at 9:30 a.m. on Tuesday, 26 February 2008 at 26/F., Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong, for the purpose of considering and, if thought fit, passing with or without modifications, the Special Resolutions and the Ordinary Resolutions, set out in the EGM Notice, the form of which is set out on pages N-1 and N-20 of this Circular.

The Register of Unitholders will be closed from Wednesday, 20 February 2008 to Tuesday, 26 February 2008, both days inclusive, during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the meeting convened by the above notice, all Unit certificates accompanied by the duly completed transfers must be lodged with the Unit Registrar, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 19 February 2008.

You can vote at the EGM if you own Units at the close of business on Tuesday, 26 February 2008, which is referred to in this Circular as the Record Date. You will find enclosed with this Circular, the EGM Notice (see pages N-1 and N-20 of this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the enclosed form of proxy, in accordance with the instructions printed on the form of proxy, and return it to the Unit Registrar of GZI REIT, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong. The form of proxy should be completed and returned as soon as possible, but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

Persons who have an interest in the Transactions (which include all the persons referred to in the section headed "Restrictions on Voting" above) must decline to accept appointment as proxies unless the Unitholder concerned has specific instructions in his form of proxy as to the manner in which his votes are to be cast in respect of the Ordinary Resolution stated in the EGM Notice.

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## LETTER FROM THE BOARD

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### 2. MISCELLANEOUS

A copy of the Trust Deed is available for inspection at the office of the Manager at all times from 9:00 a.m. to 5:00 p.m. on Business Days in accordance with the provisions of the Trust Deed. A copy of the proposed form of the supplemental deed to effect the Amendments will be available for inspection at the offices of the Manager from 9:00 a.m. to 5:00 p.m. on Business Days from the date of this Circular up to and including the date of the EGM.

### 3. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Circular.

Yours faithfully,  
By Order of the Board  
**GZI REIT ASSET MANAGEMENT LIMITED**  
(as manager of GZI Real Estate Investment Trust)  
**Liang Ningguang**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

(Stock Code: 405)

*(a Hong Kong collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

Managed by



越秀房託資產管理有限公司  
**GZI REIT Asset Management Limited**

4 February 2008

*To: The independent Unitholders of GZI REIT*

Dear Sir or Madam,

### **I. CONNECTED PARTY TRANSACTIONS IN RELATION TO THE PROPOSED ACQUISITION OF THE NEW PROPERTY AND THE ISSUE OF CONSIDERATION UNITS**

### **II. CONTINUING CONNECTED PARTY TRANSACTIONS**

We have been appointed as members of the Independent Board Committee to advise you in respect of the Transactions and the Increase, details of which are set out in the “Letter from the Board” in the circular dated 4 February 2008 (the “**Circular**”) from the Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

Yu Ming Investment Management Limited has been appointed by the Manager to advise us, the independent Unitholders and the Trustee as to whether the Transactions and the Increase are fair and reasonable. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the “Letter from the Independent Financial Adviser” the text of which is contained in the Circular.

Having taken into account the opinion of Yu Ming Investment Management Limited and the principal factors and reasons considered by them, we consider that the Transactions and the Increase are on normal commercial terms and are fair and reasonable so far as the independent Unitholders are concerned, and the Transactions and the Increase are in the ordinary and usual course of business of GZI REIT and are in the interest of GZI REIT and the independent Unitholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend that the independent Unitholders vote in favour of the Ordinary Resolution which will be proposed at the EGM to approve the Transactions and the Increase.

Yours faithfully,  
Independent Board Committee of  
**GZI REIT Asset Management Limited**

**Chan Chi On, Derek**  
*Independent Non-executive Director*

**Lee Kwan Hung, Eddie**  
*Independent Non-executive Director*

**Chan Chi Fai, Brian**  
*Independent Non-executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from Yu Ming Investment Management Limited, which has been prepared for the purpose of incorporation into this Circular, setting out its advice to the Independent Board Committee, the independent Unitholders and the Trustee in connection with the Acquisition and certain continuing connected party transactions relating to the Acquisition.*



YU MING INVESTMENT MANAGEMENT LIMITED  
禹銘投資管理有限公司

4th February, 2008

*The Independent Board Committee  
and independent Unitholders and Trustee*

Dear Sirs,

### **Connected Party Transactions in relation to the Proposed Acquisition of New Property and the issue of Consideration Units and Continuing Connected Party Transactions**

#### **INTRODUCTION**

Reference is made to the announcement of GZI REIT dated 14th January, 2008 and the “Letter from the Board” set out in this circular of GZI REIT to the Unitholders dated 4th February, 2008 (the “Circular”), of which this letter forms part. We are appointed as independent financial adviser to advise the Independent Board Committee, independent Unitholders and the Trustee in relation to the terms of the Transactions. Capitalized terms used in this letter shall have the same meanings as defined in this Circular unless the context requires otherwise.

#### **PART I — CONNECTED PARTY TRANSACTIONS**

##### **Background**

On 14th January, 2008, the Board announced that pursuant to the Deed of Right of First Refusal, Guangzhou Investment (China Property) Company Limited, as the Vendor, has entered into the Agreement with HSBC Institutional Trust Services (Asia) Limited (in its capacity as trustee of GZI REIT), GZI REIT Asset Management Limited (as the manager of GZI REIT), and Guangzhou Investment Company Limited (as Guarantor), relating to the acquisition of the New Property and the issue of Consideration Units.

As at the Latest Practicable Date, the Guarantor through Dragon Yield holds an aggregate indirect interest in 313,280,495 Units, representing approximately 31.3% of the total number

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of Units in issue. In addition, the Guarantor also holds a 100% indirect interest in the Vendor and a 100% direct interest in the Manager. Under Chapter 8 of the REIT Code, the Guarantor and the Vendor are regarded as significant holders and connected parties of GZI REIT and the Transactions among these parties and GZI REIT constitute connected party transactions under the REIT Code. The Transactions also constitute discloseable transactions.

Pursuant to the REIT Code and the Trust Deed, the Transactions will require Unitholders' approval by way of an Ordinary Resolution. GZI has agreed that it will abstain, and will procure each of the GZI Associates to abstain, from voting on the Ordinary Resolution to approve the Transactions.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chan Chi On, Derek, Mr. Lee Kwan Hung, Eddie and Mr. Chan Chi Fai, Brian, has been constituted to consider whether the terms of the Transactions are fair and reasonable and are in the interest of GZI REIT and the independent Unitholders as a whole.

Yu Ming Investment Management Limited is independent of (i) GZI REIT; (ii) the Trustee; (iii) the Manager; (iv) GZI, the significant unitholder of GZI REIT; (v) the Vendor; and (vi) GZI Associates. Apart from normal professional fees payable to us in connection with this appointment and other similar engagements, no arrangement exists whereby we will receive any fees or benefits from the aforementioned parties.

In formulating our opinion, we have reviewed, among other materials, the Agreement, the Independent Property Valuer's New Property Valuation Report as set out in Appendix 3 to this Circular, the existing tenancy agreements in respect of the New Property, the IPO Offering Circular, the annual report of GZI REIT for the year ended 31st December, 2005 and 2006, the interim report of GZI REIT for the six months ended 30th June, 2007. In addition, we discussed the valuation methodology and bases and assumptions for the valuation of the New Property with the Independent Property Valuer.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Manager and have assumed that the information, facts and opinions made to us are true and accurate. We have also sought and received confirmation from the Directors and management of the Manager that no material factors have been omitted from the information supplied and opinions expressed. We have no reason to doubt the truth, accuracy and completeness of the information provided to us or to believe that any material fact or information has been omitted or withheld. We have not, however, conducted an independent investigation into the affairs of the Manager, GZI REIT and the New Property. We consider that we have been provided with and have reviewed sufficient information to reach an informed view. We have also assumed that the statements and representations made or referred to in this Circular were accurate at the time they were made and continue to be accurate at the date of this Circular and the date of the EGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Principal Factors Considered:

In arriving at our opinion, we have taken into account the following principal factors:

#### I. Background of the Transactions

GZI REIT is a real estate investment trust ("REIT(s)") listed on the Hong Kong Stock Exchange since December 2005. A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income-producing real estate assets with a view to generating stable returns to its unitholders.

GZI REIT is formed with its investment objective to invest in properties in Guangdong province in the PRC. GZI executed the Deed of Right of First Refusal in favour of the Trustee and the Manager under which GZI REIT was granted a right of first refusal to acquire certain properties (including the New Property) in accordance with the term and conditions therein. Notice of the proposed offer for sale of the New Property was given to GZI REIT on 20th November, 2007 pursuant to the Deed of Right of First Refusal. After due consideration and based on advice prepared by the Property Adviser, the Manager has decided to pursue the Acquisition.

The target assets of the Acquisition include the entire issued share capital of and Shareholder Loans payable by Metrogold Development Limited, which is a company incorporated in British Virgin Islands formed solely for the purpose of holding the Property Company, namely, Guangzhou Jieyacheng Properties Co. Ltd. The Property Company, which held the New Property, is a sino-foreign co-operative joint venture established in the PRC and is held by the BVI Company together with the Domestic JV Partner.

The New Property represents approximately 72.3% (based on Total Floor Area) of Yue Xiu Neo Metropolis Plaza located at Nos. 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256 and 258, Zhongshanliu Road, Yuexiu District, Guangzhou City, Guangdong Province, PRC. The remaining 27.7% (based on Total Floor Area) of the Building is owned by individual third parties, which are not connected persons of GZI REIT. The New Property comprises of a portion of 23-storey commercial and office building over a 3-storey basement for retail and car parking uses. It is located at the intersection of Zhongshanliu Road and Renmin Road, which is the traditional shopping centre of Guangzhou. Total Floor Area and the Gross Rentable Area of the New Property is 61,964.34 sq.m. and 49,887.25 sq.m. respectively, comprising (i) office area of about 34,441.75 sq.m.; (ii) commercial area of about 15,445.50 sq.m.; and (iii) carparking, clubhouse and common facilities area of about 12,077.09 sq.m. As at 31st October, 2007, the overall occupancy rate of the New Property was approximately 75.1% with 60 tenants. The term of the land use right is 40 years for commercial use and 50 years for office and carparking use commencing from 22nd November, 2005 respectively.

The Appraised Value of the New Property as at 4th November, 2007 was RMB 685,000,000 (HK\$706,185,567), or approximately (HK\$11,396 per sq.m.) based on the Total Floor Area of 61,964.34 sq.m. The Acquisition Value is approximately HK\$677.3 million, which was a 4.1% discount to the Appraised Value determined after arm's length negotiations between the parties.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### II. Investment Policy and Objective

The Manager's investment objective for GZI REIT is to invest in properties in Guangdong province in the PRC and the Manager intends to actively explore acquisition opportunities that would add value to GZI REIT's portfolio and improve returns to Unitholders. Key criteria that the Manager will consider when evaluating acquisition opportunities include:

- a. Consistency with the Manager's investment strategy;
- b. Accretion to distributions per Unit;
- c. Attractiveness of the property's acquisition price vis-à-vis its cash flows, current performance and sustainable future potential;
- d. Economic conditions and the market outlook;
- e. Diversification or expansion of GZI REIT's property portfolio enabling GZI REIT to access tenant and customer demand in new trade areas;
- f. Ability of the property to complement the existing portfolio and strengthen GZI REIT's market share vis-à-vis competition in a trade area;
- g. Opportunities to enhance the property to increase investment returns and create value;
- h. Healthy occupancy rate and established tenants of good credit standing to minimize rental delinquency and turnover;
- i. Potential to add value to GZI REIT's portfolio through selective renovations or other enhancements;
- j. Good quality specifications which are in compliance with legal and zoning regulations; and
- k. Availability of appropriate and convenient access to necessary transportation amenities.

As stated in the "Letter from the Board", the Manager believes that the Acquisition is in line with its objectives and acquisition growth strategy to enhance yields and net asset growth. With regard to the above acquisition criteria, we concur with the Manager's view in this respect.

### III. Market outlook of Grade B office and retail sector for properties in Guangzhou

It is set out in the Independent Property Valuer's New Property Valuation Report that, for the office sector in Guangzhou, in spite of the increasing supply, a temporary demand-supply imbalance has led to the downward adjustment of the overall vacancy rate of Grade A office in second quarter of 2007. On the contrary, due to the limited supply and robust demand for Grade B office, the vacancy rate of Grade B office was generally below 15% in 2006.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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On 16th January, 2007, the Guangzhou Foreign Economic and Trade Meeting has stated the Yuexiu district of Guangzhou city should focus on attracting foreign capital and vigorously encourage foreign merchants to make investments in the modern service sectors and build regional service centers under the overall strategic planning of central Guangzhou.

It is the Independent Property Valuer's opinion that the Tianhe and Yuexiu districts could further boost the headquarter economy and the gathering effects of hi-tech enterprises. In addition, the policy as set out in the foregoing would further increase the demand for Grade B office in the long run. While the supply of Grade B office still falls short of demand in 2007, rental income is expected to rise significantly. The average vacancy rate foresees a significant drop in 2008.

In view of the increasing demand in the retail property sector, the Independent Property Valuer expects that the demand for retail space in Yuexiu district of Guangzhou will rise further in the short to medium term due to insufficient supply. Accordingly, the rental level is expected to rise significantly.

It is set out under the section headed "Information on the New Property" in the "Letter from the Board" that the occupancy rate of the New Property is approximately 75.1% as at 31st October, 2007 based on leased Gross Rentable Area of 49,887.25 sq.m. and excluding the carparking spaces, clubhouse and common facilities area. Having considered the promising market outlook of property sector in Guangzhou and based on the overall occupancy rate of Existing Properties of 98.0% pursuant to the 2007 interim report of GZI REIT, we concur with the Manager that there is upside potential for increase in occupancy rate, so as to the rental income of the New Property.

In addition, we have reviewed relevant documents relating to the tenant base and leasing profile for the Existing Properties and the New Property. According to the 2006 annual report of GZI REIT, 67.7% of the operating income was contributed by White Horse Building, the tenants of which consists of domestic garment enterprises from across the PRC as well as manufacturers from Hong Kong, Macau and Taiwan. Upon Completion, the Gross Rentable Area of GZI REIT's portfolio will be increased by approximately 31% from 160,145 sq.m. to 210,032 sq.m. (excluding carparking spaces, clubhouse and common facilities area). We noted the information relating to the "10 largest tenants in terms of total monthly base rent", the "Gross Rentable Area occupied by each business sub-sector" as well as the "Existing leases expiry profile" for the New Property as set out under the section headed "Information on the New Property" in the "Letter from the Board". With the expected significant increase in rentals for office and retail sector as provided by the Independent Property Valuer, we concur with the Manager's view that the Acquisition would further diversify the tenant profile and rental mix of GZI REIT with growing and stable rentals, hence a good opportunity to expand GZI REIT's investment portfolio and increase exposure to growing Guangzhou office and retail market.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### IV. Major Terms of the Transactions

#### (A) *Valuation methodologies, basis and assumptions*

In arriving at the Appraised Value, the Independent Property Valuer has considered the Income Capitalisation Approach, Discounted Cash Flow Analysis and the Sales Comparison Approach. We have discussed the appropriateness of adopting these valuation methods. We understand that the Independent Property Valuer has obtained market comparables to undertake its calculations in order to derive a market value by using the Sales Comparison Approach, which, albeit reflecting the market values of the New Property, is considered to have limitations in reflecting specific factors such as lease expiry profile, quality of existing tenant covenants and vacancy rate.

Accordingly, the primary valuation methods adopted by the Independent Property Valuer are the Income Capitalization Approach and the Discounted Cash Flow Analysis. The Independent Property Valuer also cross-checked the values derived from the Income Capitalization Approach with that derived from the Sales Comparison Approach.

We understand from the Independent Property Valuer that the Income Capitalization Approach reflects the specific characteristics of the New Property such as lease expiry profile, existing tenant covenants and level of passing and reversionary rents. It is the Independent Property Valuer's view that this method is particularly relevant for REIT based purchasers.

The Discounted Cash Flow Analysis reflects additional specific characteristics of the New Property, such as leases duration and potential rental income growth, renewed rates, vacancy rates and all outgoing expenses.

We also reviewed the basis and assumptions adopted by the Independent Property Valuer, the report of which is set out in Appendix 3 of this Circular. Having discussed with the Independent Property Valuer and with regard to the Appraised Value of the New Property, being the average value derived from using the Income Capitalization Approach and the Discounted Cash Flow Analysis, is in line with the market value as derived from the Sales Comparison Approach, we consider that the methodology, basis and assumptions adopted in arriving at the Appraised Value of the New property are reasonable and in line with market practices.

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### (B) *Purchase Consideration*

The Purchase Consideration payable upon Completion of approximately HK\$677.3 million, which represents a 4.1% discount to the Appraised Value of the New Property, was determined after arm's length negotiations between the parties with reference to the Independent Property Valuer's New Property Valuation Report.

We have conducted a limited scope research on a selected basis for acquisition of property assets in year 2007 by REITs listed in Hong Kong and Singapore. The result of our limited research relayed that the acquisition consideration payable by respective purchasers for the new property assets to be acquired was set within the range from the exact appraised value to a discount of approximately 10.15%. There are two transactions in our research relating to acquisitions of PRC properties, the acquisition price of which was set at the exact appraised value and a discount of approximately 1% respectively. Our findings are briefly summarized in the following table:

**Table A — Acquisition of Property Assets by Singapore Listed REITs:**

<b>Name of REITs</b>	<b>Announcement Date</b>	<b>Property Location</b>	<b>Premium/Discount</b>
Cambridge Industrial Trust	9-Jan-07	Singapore	0.00%
First Real Estate Investment Trust	22-Jan-07	Singapore	0.00%
Cambridge Industrial Trust	20-Jun-07	Singapore	-1.00%
CapitaCommerical Trust	20-Jul-07	Singapore	0.00%
Cambridge Industrial Trust	23-Jul-07	Singapore	-1.15%
K-Reit Asia	30-Jul-07	Singapore	-5.98%
Suntec Real Estate Investment Trust	30-Jul-07	Singapore	0.00%
Macquarie MEAG Prime Real Estate Investment Trust	22-Aug-07	Chengdu, China	0.00%
Macarthurcook Industrial REIT	27-Aug-07	Singapore	0.00%
Allco Commercial Real Estate Investment Trust	14-Sep-07	Tokyo and Osaka, Japan	-1.60%
Allco Commercial Real Estate Investment Trust	5-Oct-07	Singapore	-1.18%
CapitaRetail China Trust	18-Oct-07	Beijing, China	-1.00%
Ascott Residence Trust Management Limited	12-Nov-07	Tokyo , Japan	-0.89%

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**Table B — Acquisition Property Assets by Hong Kong Listed REITs:**

<b>Stock Code</b>	<b>Name of REITs</b>	<b>Announcement Date</b>	<b>Property Location</b>	<b>Premium/Discount to the Valuation Price by independent valuer</b>
435	Sunlight Real Estate Investment Trust	—	—	—
625	RREEF China Commercial Trust	—	—	—
808	Prosperity Real Estate Investment Trust	16-Oct-06	Kwun Tong, Hong Kong	-4.45%
823	The Link Real Estate Investment Trust	—	—	—
1881	Regal Real Estate Investment Trust	—	—	—
2778	Champion Real Estate Investment Trust	11-Dec-06	Central, Hong Kong	-10.15%
	Highest premium to the appraised value		0.00%	
	Highest discount to the appraised value		-10.15%	
	Average discount to the appraised value		-1.83%	

Taking into account the Purchase Consideration payable upon Completion is at 4.1% discount to the Appraised Value of the New Property, which is within the range of market practices and above the average discount to property valuations from our limited scope research result, we consider the Purchase Consideration payable upon Completion is fair and reasonable.

**(C) *Financing and Cost of the Acquisition***

The Purchase Consideration payable upon Completion (subject to adjustment) and the relevant expenses of about HK\$22 million to be borne by the Vendor and the Manager, in its capacity as manager of GZI REIT, in equal shares will be satisfied as to:

- approximately HK\$203.2 million by way of issue and allotment of Consideration Units to the Vendor or its nominated person upon Completion; and
- the remaining balance of the Purchase Consideration payable upon Completion by way of payment in cash to the Vendor upon Completion.

The Purchase Consideration payable upon Completion is subject to adjustment to take into account the increase or reduction in the combined net asset value of the BVI Company and Property Company during the period from 1st October, 2007 to the date of Completion and no later than 104 days from the date of Completion, based on the audited financial statements as of the date of Completion.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

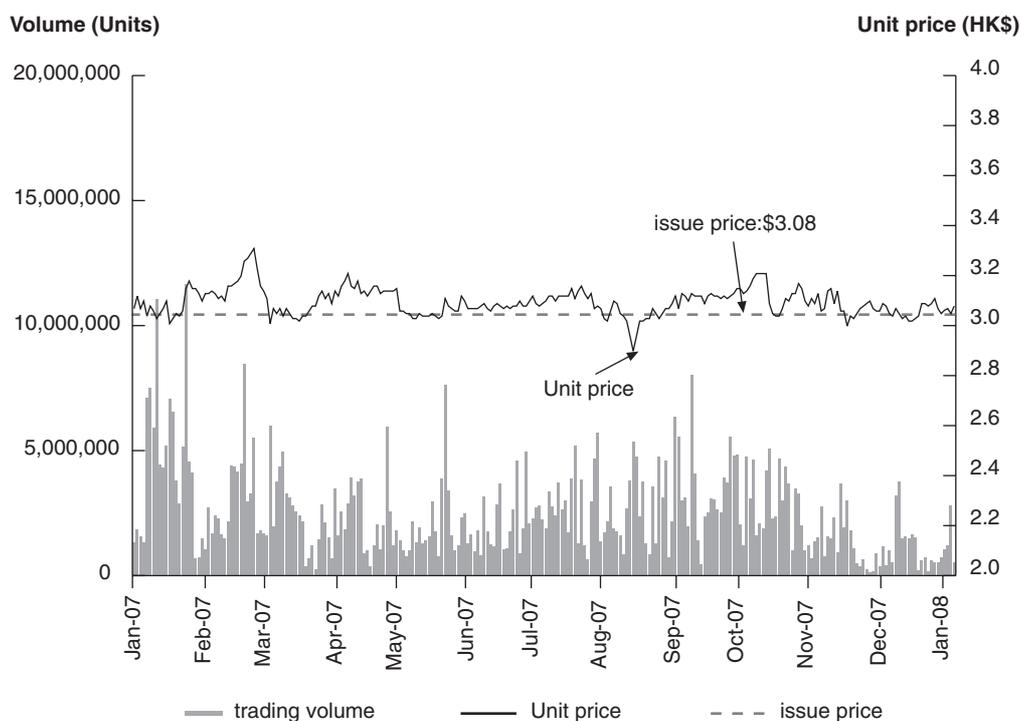
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(i) *Issue and Allotment of Consideration Units*

The partial consideration of approximately HK\$203.2 million is to be satisfied by way of issue and allotment of Consideration Units to the Vendor or its nominated person at an issue price of HK\$3.08 per Unit, which represents:

- a. the closing price of HK\$3.08 per Unit as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- b. the average closing price of approximately HK\$3.08 per Unit as quoted on the Hong Kong Stock Exchange for the 10 Trading Days up to and including the Last Trading Day;
- c. a premium of approximately 0.65% to the average closing price of approximately HK\$3.06 per Unit of the 30 Trading Days up to and including the Last Trading Day; and
- d. a discount of approximately 7.8% to the unaudited consolidated net asset value per Unit as at 30th June, 2007 of HK\$3.34.

The chart below shows the closing prices and trading volume of the Units traded on the Hong Kong Stock Exchange for the past 12 months ending on and including the Last Trading Day, being the last trading day before the Agreement is entered into:



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During the 12-month period under review, the closing prices of the Units ranged from HK\$3.31 to HK\$ 2.90 per Unit. Given the Purchase Consideration payable upon Completion is set at a discount to the Appraised Value of the New Property and having referenced to the fluctuation and condition of the stock market in Hong Kong especially in recent months, we consider the issue price per Unit at market value is fair and reasonable and in the interest of the independent Unitholders despite the discount of approximately 7.8% to the unaudited consolidated net asset value of HK\$3.34 per Unit as at 30th June, 2007.

(ii) *Cash Consideration*

The remaining balance of the Purchase Consideration payable upon Completion together with expenses incurred relating to the Transactions, will be satisfied in cash and funded by the proceeds from the issue of Proposed Convertible Bonds and/or other sources of financing as the Manager may opt for.

The Manager intends to issue Proposed Convertible Bonds (with the terms and conditions yet to be finalized) pursuant to the power of the Manager to issue Units pursuant to Paragraph 12.2 of the REIT Code and Clause 7.5 of the revised Trust Deed (if approved). It is set out in the "Letter from the Board" that the completion of the Proposed Convertible Bonds is not a condition precedent to the Acquisition, however, the Acquisition is conditional upon, amongst other things, the Financing Condition being satisfied.

Subject to prevailing market conditions and the costs involved, the Manager may obtain other sources of financing, such as banking facilities, as a contingency to satisfy part or all of the remaining Purchase Consideration payable upon Completion in lieu of or in addition to the issuance of the Proposed Convertible Bonds, but such other sources of financing may or may not be more costly than the Proposed Convertible Bonds. In the event that the Financing Condition cannot be satisfied by the Long Stop Date in accordance with the Agreement, the Purchaser will not be obliged to complete the Acquisition and all the costs incurred relating to the Transactions shall be borne by the Vendor and the Manager in equal proportion.

It is set out in the "Letter from the Board" that the Acquisition is subject to, among other things, the Financing Condition, being the obtaining of financing for the Acquisition on market terms and such other terms as are satisfactory to the Purchaser and, where applicable, all requisite consents and/or approvals for the Transactions as shall be required by the Trustee of the Proposed Convertible Bonds.

As the terms and conditions for the issue of the Proposed Convertible Bonds is yet to be finalized, which shall be carried out by the Manager pursuant to its power to issue Units under Paragraph 12.2 of the REIT Code and Clause 7.5 of the revised Trust Deed subject to approval by independent Unitholders, we could not analyze the potential

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dilution effect of the distribution and the net asset value per Unit immediately after such issue of the Proposed Convertible Bonds. Nonetheless, we have examined the financial effects of the Acquisition, which is set out under the section headed “Financial Effects of the Acquisition” in this letter below.

(D) ***Other issues related to the New Property***

(i) *Unsettled Land Premium*

According to implementing rules promulgated by Guangzhou Municipal People’s Government and two supplemental agreements entered between the Property Company and Guangzhou Administrative Bureau for Land Resources and Housing (“LAHO”), payment of land premium in relation to the use of basement floors and parts of the common facilities and areas has been deferred. To indemnify the Purchaser from Losses (as defined in the Agreement) which it may suffer as a result of or in connection with such unsettled land premium, the Guarantor will enter into a deed of indemnity upon Completion in favour of the Purchaser. The maximum aggregate liability of the Guarantor under the said deed of indemnity and the Agreement (other than Losses which the Purchaser and/or the Manager may suffer as a result of or in connection with deferred taxation relating to the New Property and other items specified in the Agreement) shall not exceed the Acquisition Value and no claim shall be brought by the Purchaser and/or the Manager for the said Losses unless written notice of such claim has been given to the Guarantor on or before the expiry of the period of 6 years following the date of Completion.

Considering the indemnity to be provided by the Guarantor against such unsettled land premium that GZI REIT might or might not suffer in the future, the Manager does not anticipate any material adverse financial impact on the part of GZI REIT in this respect. The 6-year indemnity period is determined by the Vendor and the Manager after arm’s length negotiation and is the best term achievable by the Manager. Under such circumstances, we concur with the Manager that the indemnity is arrived at on normal commercial terms.

(ii) *Civil Defence Shelter*

As required under the PRC laws and regulations, there is a civil defence shelter in the New Property with an aggregate Gross Floor Area of 3,921 sq.m. According to the PRC legal opinion provided by the Manager’s PRC counsel:

- a. although relevant laws and regulations have not stated clearly whether the ownership of the civil defence shelter belongs to the government or the developer, considering a Property Ownership Certificate of civil defence shelter was issued by the LAHO to the Property Company, the ownership of the civil defence shelter belongs to the Property Company;

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- b. the Property Company leased the civil defence shelter to (廣州城建開發宏城車場物業管理有限公司) (“the Tenant”), and the Tenant has obtained a permit to use the civil defence shelter, for purposes of carparking spaces, for the period from 3rd December, 2007 to 3rd December, 2010;
- c. upon expiry of the term under item b, application should be made to Guangzhou civil defence shelter administration authority to renew the relevant term;
- d. notwithstanding items “a” and “c”, the Property Company has the right to lease the relevant area to tenant(s) for carparking spaces and/or to transfer its interest and rights in relation to the civil defence shelter to other entity(ies) according to the relevant PRC laws and regulations.

With the legal advice sought by the Manager, which was summarized as above, and taking into account the rental income of approximately RMB 1 million for the period from 1st January, 2008 to 31st December, 2008 for the entire carparking area of about 7,549.03 sq.m., which includes the area of the civil defence shelter, we consider the financial impact if any is immaterial to GZI REIT and its Unitholders.

(iii) *Deferred Taxation relating to the New Property*

To indemnify the Purchaser from Losses (as defined in the Agreement) which it may suffer as a result or in connection with taxation in respect of profit resulting from any sale or deemed sale of the Property or the shares of the BVI Company and/or the Property Company, the Guarantor will enter into a deed of indemnity upon Completion in favour of the Purchaser. There is no minimum or maximum threshold to such indemnity provided that (a) the Guarantor shall not be liable for that part of the deferred taxation attributable to the Property Company disposing of the New Property at a consideration higher than the Acquisition Value; (b) no claim shall be brought by the Purchaser and/or the Manager for the tax claim unless written notice of such claim has been given to the Guarantor on or before the expiry of the period of 6 years following the date of Completion.

We understand from the Manager that, the deferred taxation relating to the New Property would only be payable at the time of disposal of the New Property and would be calculated based on the difference between the original purchasing price and the future disposal price of the New Property. Pursuant to its investment strategy, GZI REIT holds properties for rental income producing and investment purpose. Accordingly, the Manager does not anticipate to dispose the New Property in the short term. The 6-year indemnity period is determined by the Vendor and the Manager after arm's length negotiation and is the best term achievable by the Manager. Under such circumstances, we concur with the Manager that the indemnity is arrived at on normal commercial terms.

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### (E) *Financial Effects of the Acquisition*

#### (i) *Net assets attributable to Unitholders*

Based on the unaudited management account of the BVI Company as at 30th September, 2007, the net asset value of the BVI Company is approximately HK\$139 million, including an inter-company loan of HK\$138 million and a Shareholder Loans of approximately HK\$299 million. As at the date of 14th January, 2008, the Shareholder Loans is increased to approximately HK\$437 million. It is set out in the "Letter from the Board" that the net assets attributable to Unitholders immediately after the issue and allotment of the Consideration Units but before the possible dilution as a result of the intended issue and subsequent conversion of the Proposed Convertible Bonds would be increased from approximately HK\$3,335 million to approximately HK\$3,538 million. As the issue price of Consideration Units is at HK\$3.08 per Unit, the total number of new Units to be issued would be approximately 65,972,687. Accordingly, the net asset value of GZI REIT will be diluted by approximately 0.5% from HK\$3.335 to HK\$3.319 per Unit. Having considered (i) the Acquisition Value being set at a discount to the Appraised Value; (ii) the issue and allotment of the Consideration Unit at the market price; and (iii) the promising outlook of the property market in Guangzhou city of the PRC as set out in the Independent Property Valuer's New Property Valuation Report in Appendix 3 of this Circular; (iv) the additional revenue that could be generated from the potential improvement of the occupancy rate of the New Property from about 75.1% to the level of the Existing Properties held by GZI REIT at about 98%; and (v) the prevailing trend of the RMB appreciation, we consider the immaterial dilution of approximately 0.5% on the net asset value per Unit acceptable.

#### (ii) *Leverage ratio and working capital*

As stated in the "Letter from the Board", the pro forma leverage ratio of GZI REIT, calculated based on the unaudited interim financial information of GZI REIT as at 30th June, 2007 and the latest available unaudited management accounts of the BVI Company as at 30th September, 2007, would be increased from 26.4% to 30.4% immediately upon the Completion. The pro forma leverage ratio would fall within the permitted 45% borrowing limit as prescribed under the REIT Code. Pursuant to our discussion with the Manager, the increase in leverage ratio of GZI REIT following the completion of the Acquisition and the issue and allotment of the Consideration Units but before the intended issue and conversion of the Proposed Convertible Bonds would not have any material adverse impact on the financial and working capital position of GZI REIT.

As at the Latest Practicable Date, the Manager had no specific plans for renovation or improvement of the New Property save for the enhancement of electricity supply which costs has been anticipated.

As such, we concur with the Manager's view that the Acquisition would not have material adverse impact on the financial position of GZI REIT based on (i) cash balance of GZI REIT of approximately HK\$272,488,000 as at the 30th June, 2007; (ii) the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Purchase Consideration payable upon Completion will be financed by way of issue and allotment of Consideration Units and the Proposed Convertible Bonds; (iii) the rental income from the New Property would sufficiently cover the interest cost calculated based on prevailing market borrowing interest rate if the Manager chooses to obtain funds by way of loan facilities to finance the remaining part of total Purchase Consideration payable upon Completion in lieu of the Proposed Convertible Bonds, if necessary; and (iv) no specific cost is foreseeable to be incurred relating to improvement of the New Property.

(iii) *Earnings and DPU*

According to the “Independent Property Valuer’s New Property Valuation Report” set out in Appendix 3 of this Circular, the monthly net passing income as at the date of the valuation report is approximately RMB1,781,703 per month and approximately RMB21,380,436 on an annual basis (the “Net Rental Income”), which is exclusive of property management fee and other outgoings, such as water, electricity, gas, telephone, air-conditioning charges (the “Operating Expenses”). In order to form relevant comparison, we have used same calculation methodology for computation of the DPU per new Consideration Units as that used by GZI REIT in its 2006 annual reports for its existing issued Units. Based on the Net Rental Income and the 65,972,687 Consideration Units to be issued and allotted immediately upon Completion but before any new Units might fall to be issued and allotted pursuant to the Proposed Convertible Bonds, the distributable income per new Unit net of Operating Expenses and tax applicable to the Property Company of 26% would amount to approximately HK\$0.247, which is calculated based the Net Rental Income of RMB21,380,436 (after conversion to HKD at a prevailing exchange rate of HK\$1 = RMB0.97 for the purpose of our calculation and tax applicable to the Property Company of 26%) divided by the 65,972,687 Consideration Units to be issued and allotted upon Completion. Accordingly, the yield per new Unit is approximately 8.02%, which is calculated based on the distributable income of HK\$0.247 per new Unit as calculated in the foregoing and the closing price of HK\$3.08 on 11th January, 2008, being the last trading day before the entering into of the Agreement. As such, with reference to the distribution of HK\$0.2067 per Unit and a yield of approximately 6.73% for the financial year ended 31st December, 2006, the issue of Consideration Units, and in particular, on the assumption that no new Units shall fall to be issued and allotted as a result of the Proposed Convertible Bonds, the Acquisition of the New Property would be yield accretive to GZI REIT and the Unitholders.

Nonetheless, we would like to draw the attention of the Unitholders that this is without taking into account of the dilution effect of the new Units which might fall to be issued and allotted pursuant to the Proposed Convertible Bonds. As the detailed terms of the Proposed Convertible Bonds is yet to be finalized and subject to approval by Unitholders on the certain revision of the Trust Deed as set out in the “Letter from the Board” of this Circular, we are not able to compute the exact dilution effect as a result of the issue and allotment of Proposed Convertible Bonds as part of the Purchase Consideration payable upon Completion as at the date of this letter. Your attention is also drawn to the section headed “(c) Illustrative effects on Unitholding structure” in the “Letter from the Board” of this Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iv) *Distribution may comprise a partial payment of inter-company loans due from the Property company to the BVI Company*

As set out in the “Letter from the Board”, the repatriation of income from the New Property may be in the form of dividends, interest received and/or repayment of an inter-company loan from the Property Company to the BVI Company.

Due to the difference under the PRC generally accepted accounting standard (the “PRC GAAP”) and Hong Kong Financial Reporting Standards (“HKFRS”), cash balances relating to depreciation cost as well as statutory common reserve fund of the New Property could not be distributable as dividend from the Property Company to the BVI Company. As such, to release such captive cash, the distribution may comprise a partial payment of inter-company loan due from the Property Company to the BVI Company.

As at the date of this Circular, there is an inter-company loan of HK\$138 million due from the Property Company to the BVI Company. Based on the existing terms of the inter-company loan, it is anticipated that the distribution to Unitholders would not be affected within eight years assuming that (i) conversion of the inter-company loan of HK\$138 million to RMB is duly and fully completed; and (ii) there is no change in the PRC GAAP. However, if the conversion of the inter-company loan of HK\$138 million into RMB cannot be completed before the date of Completion, the number of years required to fully repay the balance of the principal amount of the inter-company loan will be shorter than the aforesaid eight years. If there is a change of PRC GAAP so that the New Property is regarded as an investment property and is not depreciated, cash will not be trapped in the Property Company in the form of depreciation expense but given the tax effect of the matter, the total distributable income available may be reduced.

As a contingency plan, the Manager will consider to maintain such inter-company loan arrangement as and when necessary, so that the captive cash would be able to be distributed to Unitholders. Accordingly, we consider such arrangement would not adversely affect distribution of the captive cash to the Unitholders, hence is in the interest of the Unitholders.

### **Recommendation**

For the purpose of arriving at our opinion in relation to the Transactions, we have taken into account the aforesaid factors and reasons, namely:

- (i) background of the Transactions;
- (ii) investment policy and objective;
- (iii) market outlook of Grade B office and retail sector for properties in Guangzhou;
- (iv) valuation methodologies, basis and assumptions;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (v) Purchase Consideration payable upon Completion;
- (vi) financing and cost of the Acquisition;
- (vii) other issues related to the New Property such as unsettled land premium, civil defence shelter and deferred taxation relating to the New Property; and
- (viii) financial effects of the Acquisition.

Having considered the above factors and reasons, we consider that the terms of the Transactions are on normal commercial terms and are fair and reasonable so far as the independent Unitholders are concerned and the Transactions are entered in the ordinary and usual course of business of GZI REIT and in the interest of GZI REIT and the independent Unitholders as a whole. As such, we advise the Independent Board Committee and the independent Unitholders that the independent Unitholders should vote in favour of the Ordinary Resolution to approve the Transactions at the EGM.

### **PART II — CONTINUING CONNECTED PARTY TRANSACTIONS**

#### **Background**

In relation to the proposed Acquisition, GZI REIT has entered into the leasing transactions and will enter into the Tenancy Services Agreements, the details of which is set out in the “Letter from the Board” of this Circular and summarized as follows.

#### **I. *Leasing Transactions***

The Property Company has entered into a tenancy agreement with the Tenant in relation to certain carparking spaces at the New Property (the “New Leasing Transaction”, together with the existing leasing transactions of the Existing Properties of GZI REIT (the “Existing Leasing Transactions”), hereinafter the “Leasing Transactions”). This New Leasing Transaction was entered into in the ordinary and usual course of business of the Property Company, on normal commercial terms and was based on market pricing. As the Tenant is a subsidiary of GZI and therefore a connected person of GZI REIT, upon Completion the New Leasing Transaction will become and constitute a connected party transaction of GZI REIT under Paragraph 8.11 of the REIT Code.

#### **II. *Property Management Arrangements***

The Property Manager has been appointed to manage the common areas in the Building (the “New Property Management Arrangement”). The New Property Management Arrangement(s) were entered into in the ordinary and usual course of business of the Property Company, on normal commercial terms and based on market pricing. As the tenants in the New Property (and not the Property Company) pay the property management fees to the Property Manager, no caps are required in respect of such property management fees.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### III. *Tenancy Services Agreement*

GZI REIT will enter into a Tenancy Services Agreement in respect of the New Property (the "New Tenancy Services Agreement") with the Property Manager, which is a subsidiary of GZI and therefore a connected person of GZI REIT. The Property Manager is currently managing 3 properties out of the Existing Properties and the transaction contemplated under the New Tenancy Services Agreement constitutes a connected party transaction of GZI REIT under Paragraph 8.11 of the REIT Code. The New Tenancy Services Agreement will be entered into as has been the case for the Existing Properties which has been on normal commercial terms and was based on market pricing.

#### **Waivers Granted**

Subject to certain conditions (including but not limited to the conditions as set out below, the SFC has granted waivers from strict compliance with the disclosure and approval requirements under Chapter 8 of the REIT Code in respect of the Existing Leasing Transactions of GZI REIT, the existing property management arrangement and the Tenancy Services Agreements of the Existing Properties (the "Existing Transactions", together with the New Leasing Transaction, the New Property Management Arrangement and the New Tenancy Services Agreement, hereinafter "Continuing Connected Party Transactions") between the Group and persons which are connected with GZI REIT as a result of their connection with the Manager:

#### I. *Annual caps*

In any relevant Financial Year, the annual value of the Existing Leasing Transactions and the tenancy services agreements shall not exceed the respective annual cap amounts set out in the IPO Offering Circular.

#### II. *Initial waiver period*

The waivers for the Existing Transactions will be for an initial duration commencing from the Listing Date and ending on 31st December, 2008, being the "Initial Waiver Period".

#### **Unitholders' approval sought**

As a result of the Acquisition and the increase of the scale of GZI REIT's operation, the Board seeks to (a) increase the relevant annual caps for Continuing Connected Party Transactions (the "New Cap(s)"); and (b) extend the Initial Waiver Period for a period up to and including 31st December, 2010.

In forming our opinion as to whether New Caps are fair and reasonable so far as the independent Unitholders are concerned and in the interests of GZI REIT and the independent Unitholders as a whole, we have reviewed documents and based our analysis on the information provided by the Manager which include amongst other things, the agreements relating to the Continuing Connected Party Transactions, the SFC approval letter dated 8th

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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December, 2005 granting the waiver for the Existing Transactions (the "Waiver"), the application submitted to the SFC relating to the New Caps for the Continuing Connected Party Transactions, the IPO Offering Circular and the audited financial statements of GZI REIT for the period ended 31st December, 2005 and 31st December, 2006.

### Principal Factors Considered

In arriving at our recommendation in relation to the New Caps for the Continuing Connected Party Transactions, we have considered the following factors:

#### I. *Leasing Transactions*

The Manager anticipates that the New Caps for the Leasing Transactions, rounded up to the nearest thousand, are to be increased for the years ending 31st December, 2008, 2009 and 2010 are as follows:

<b>For the year ending 31st December, 2008 (Note)</b>	<b>For the year ending 31st December, 2009</b>	<b>For the year ending 31st December, 2010</b>
HK\$4,061,000	HK\$4,189,000	HK\$4,777,000

*Note:* The cap set out in the above table for Financial Year 2008 has been approved in the Waiver.

The Manager expects the cap for the Existing Leasing Transactions for the year ended 31st December, 2008 will not exceed the amount previously approved at the time of listing in 2005 and hence no revision is needed.

As stated in this Circular, the New Caps for the Leasing Transactions have been determined with general reference to the historical data for the last 3 years and based on the anticipated aggregate value of such transactions during the relevant financial periods of the next 3 years ending 31st December, 2010.

The actual transacted amounts for the Existing Leasing Transactions in the past three years are as follows:

<b>For the period from 7th December, 2005 to 31st December, 2005</b>	<b>For the year ended 31st December, 2006</b>	<b>For the year ended 31st December, 2007 (Note)</b>
HK\$86,000	HK\$3,141,000	HK\$3,047,000

*Note:* Pursuant to the unaudited management account of GZI REIT as at 31st December, 2007.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It is also expected that the annual transaction values related to the Leasing Transactions including carparking spaces for the New Property during the two years period ending 31st December, 2009 and 31st December, 2010 are as follows:

<b>For the year ending 31st December, 2009</b>	<b>For the year ending 31st December, 2010</b>
HK\$3,491,000	HK\$3,981,000

In addition, a buffer of 20% has been included in the caps as contingencies such as: (i) changes in rental or other market conditions; (ii) appreciation of RMB; and/or (iii) differences in pricing or other relevant practices or policies of GZI REIT compared with those applicable when the New Property and/or the Existing Properties were controlled by GZI REIT's predecessors.

Detailed computation of the New Cap for the year ending 31st December, 2009 is as follows:

*Expected annual amount of Leasing Transactions  
for the year ending 31st December, 2009 x 1.2, which would be  
approximately HK\$4,189,000, being HK\$3,491,000 x 1.2.*

The proposed annual cap for the year ending 31st December, 2010 is determined by applying the above formula on the same basis as adopted for the calculation of annual cap for the year ending 31st December, 2009, which would be HK\$4,777,000.

### II. **Property Management Arrangements**

The New Property Management Arrangement were entered into in the ordinary and usual course of business of the Property Company, on normal commercial terms and based on market pricing. As the tenants in the New Property (and not the Property Company) pay the property management fees to the Property Manager, no caps are required in respect of such property management fees.

As set out in the IPO Offering Circular, the Property Manager has been appointed to manage the common areas of the three of the Existing Properties. Accordingly to the Manager, the New Property Management Arrangement was entered into on the same basis as those entered into for the Existing Properties.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### III. *Tenancy Services Agreements*

The New Caps for the Tenancy Services Agreements, rounded up to the nearest thousand, proposed by the Manager for the years ending 31st December, 2008, 2009 and 2010 are as follows:

<b>For the year ending 31st December, 2008</b>	<b>For the year ending 31st December, 2009</b>	<b>For the year ending 31st December, 2010</b>
HK\$18,149,000	HK\$19,964,000	HK\$21,960,000

As stated in this Circular, the New Caps for the Tenancy Services Agreements have been determined with reference to the projected annual gross income of the relevant properties assuming:

- (A) the annual rental growth rate remains constant at 10% for the relevant financial periods;
- (B) property management fees for all properties of GZI REIT, with the exception of White Horse Units, will be 4% of annual gross income;
- (C) property management fees for White Horse Units will be 3% of its annual gross income; and
- (D) a buffer of 20% has been included in the caps for contingencies such as: (i) changes in market conditions; (ii) appreciation of RMB; and/or (iii) differences in pricing or other relevant practices or policies of GZI REIT compared with those applicable when the New Property and/or the Existing Properties were controlled by GZI REIT's predecessors.

The actual transacted amounts for the Tenancy Services Agreements of the Existing Properties in the past three years are as follows:

<b>For the period from 7th December, 2005 to 31st December, 2005</b>	<b>For the year ended 31st December, 2006</b>	<b>For the year ended 31st December, 2007 (Note)</b>
HK\$241,000	HK\$12,279,000	HK\$13,407,000

*Note:* Pursuant to the unaudited management account of GZI REIT as at 31st December, 2007.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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It is also expected that the annual transaction amounts related to the Tenancy Services Agreements including the New Property and the Existing Properties during the next three years period ending 31st December, 2010 are as follows:

<b>For the year ending 31st December, 2008</b>	<b>For the year ending 31st December, 2009</b>	<b>For the year ending 31st December, 2010</b>
HK\$15,124,000	HK\$16,637,000	HK\$18,300,000

Detailed computation of the New Caps for the Tenancy Services Agreements for the year ending 31st December, 2008 is as follow:

*Expected annual transaction amount for Tenancy Services Agreements  
for the year ending 31st December, 2008 x 1.2, which would be  
approximately HK\$18,149,000, being HK\$15,124,000 x 1.2.*

Computation of the New Caps for the years ending 31st December, 2009 and 2010 are calculated on the same basis by applying the formula adopted for the New Cap calculated for the year ending 31st December, 2008, which would be approximately HK\$19,964,000 and HK\$21,960,000 respectively.

#### **IV. Conditions of the Waiver**

It is set out in the IPO Offering Circular that the Existing Transactions are subject to the following review requirements:

**(A) Disclosure in semi-annual and annual reports**

Details of the Connected Party Transactions shall be disclosed in GZI REIT's semi-annual and annual reports, as required under Paragraph 8.14 of the REIT Code.

**(B) Auditors' review procedures**

In respect of each relevant financial period, the Manager will engage and agree with the auditors of GZI REIT to perform certain review procedures on connected party transactions. The auditors will then report to the Manager on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming whether all such connected party transactions:

- (i) have received the approval of the Board (including the independent non-executive Directors);
- (ii) are in accordance with the pricing policies of GZI REIT;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

(iv) the total value in respect of which has not exceeded the relevant cap amount (where applicable).

(C) *Annual review by the Audit Committee of GZI REIT and the independent non-executive Directors*

The Audit Committee of GZI REIT and the independent non-executive Directors shall review the relevant connected party transactions annually and confirm in GZI REIT's annual report for the relevant Financial Year that such transactions have been entered into:

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

(ii) 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 readily available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements 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.

(D) *Notification to the SFC*

The Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors of GZI REIT and/or the Audit Committee of GZI REIT will not be able to confirm the matters set out in, respectively, the sub-sections headed "Auditor's review procedures" and "Annual review by the Audit Committee of GZI REIT and the independent non-executive Directors" above.

(E) *Auditors' access to books and records*

The Manager shall allow, and shall procure the counterparty to the relevant connected party transaction to allow, the auditors of GZI REIT sufficient access to their records for the purposes of reporting on the transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(F) *Subsequent increases in annual caps with independent Unitholders' approval*

The Manager may from time to time seek to increase one or more of the annual caps set out above, for example, when GZI REIT acquires additional properties and increases the scale of its operations or when there are changes in market or operating conditions, provided that:

- (i) the Manager obtains the approval of independent Unitholders by way of an ordinary resolution passed in a general meeting of Unitholders;
- (ii) the Manager discloses details of the proposal to increase the cap amounts by way of an announcement such proposal, and issue a circular and notice to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (iii) the requirements set out in paragraphs (A) to (F) above shall continue to apply to the relevant transactions, save that the increased annual cap amounts and the extension of Initial Waiver Period shall apply.

We are of the view that the aforesaid annual review requirements can provide appropriate measures to govern the Manager in carrying out the Continuing Connected Party Transactions and safeguard the interest of the independent Unitholders.

### **Recommendation**

Having considered (i) the computations and basis and assumptions used for the calculation of the New Caps for the Continuing Connected Party Transactions; (ii) the New Property Management Arrangement and the New Leasing Transaction were entered into in the ordinary and usual course of business of the Property Company, on normal commercial terms and was based on market pricing; (iii) the New Tenancy Services Agreement will be entered into as has been the case for the Existing Properties which has been on normal commercial terms and was based on market pricing; and (iv) with regard to relevant annual review requirements as required by SFC, which safeguard the interest of independent Unitholders, we are of the view that the proposed Increase for the Continuing Connected Party Transactions is entered into in the ordinary and usually course of business on normal commercial terms, and is fair and reasonable and in the interest of the independent Unitholders as a whole. We therefore recommend that the independent Unitholders to vote in favour of the Ordinary Resolution to approve the Increase at the EGM.

Yours faithfully,  
For and on behalf of  
**YU MING INVESTMENT MANAGEMENT LIMITED**  
**Warren Lee**  
*Director*

**APPENDIX 1**

**EXAMPLES OF THE MANNER OF OPERATION OF THE PROPOSED NEW CLAUSE 7.5 OF THE TRUST DEED**

<b>Assumptions</b>	
• Number of Units outstanding on the Listing Date is	1,000
• Convertible bonds amounting to an aggregate principal amount of HK\$300 (with initial conversion price of HK\$3 per Unit) are issued in Financial Year 1.	
→ The maximum number of Units issuable at the initial conversion price pursuant to the convertible bonds is	$\text{HK\$}300 \div \text{HK\$}3 = 100$
• The maximum number of any other new Units which may be issuable pursuant to the convertible bonds as at the date of issuance of the convertible bonds, as estimated and confirmed in writing by the Manager pursuant to the proposed new Clause 7.5(i)(b)(2) is	50
<b>Based on the assumptions</b>	
→ For the duration of Financial Year 1, the maximum number of Units that may be issued or offered otherwise than on a pro rata basis to all existing Unitholders without Unitholders' approval (" <b>Maximum No.</b> ") is	$20\% \times 1,000 = 200$
→ After the convertible bonds are issued, for the remainder of Financial Year 1, the Maximum No. is	$200 - 150 = 50$

<b>Different scenarios happened in Financial Year 1</b>			
<b>Scenario</b>	<b>(A) No new Units are issued</b>	<b>(B) 10 new Units are issued pursuant to conversion of the convertible bonds and no other new Units are issued</b>	<b>(C) 30 new Units are issued in reliance on the General Mandate and no Units are issued pursuant to conversion of the convertible bonds and 20 new Units are issued in other circumstances, with the specific prior approval of Unitholders pursuant to Clause 7.5(ii)</b>
→ Number of Units outstanding at the end of Financial Year 1	1,000	$1,000 + 10 = 1,010$	$1,000 + 30 + 20 = 1,050$
→ Maximum No. for Financial Year 2	$20\% \times 1,000 = 200$	$20\% \times 1,010 = 202$	$20\% \times 1,050 = 210$

<b>Considering Scenario (B) further (i.e. with Maximum No. for Financial Year 2 is 202)</b>	
<p><b>In Financial Year 2</b></p> <ul style="list-style-type: none"> <li>• If in Month 1, 10 Units are issued in Financial Year 2 pursuant to conversion of the convertible bonds</li> <li>→ After the 10 Units are issued, the remaining Maximum No. for Financial Year 2 is (as the 10 Units issued have already been taken into account in calculation of remaining Maximum No. in Financial Year 1, they will not be taken into account again in Financial Year 2.)</li> <li>• If in Month 2, 50 Units are placed in other circumstances, in reliance on the General Mandate → After the 50 Units are issued to the placees, the remaining Maximum No. for Financial Year 2 is</li> <li>→ Number of Units outstanding as at the end of Financial Year 2 is (for the purpose of calculation of the outstanding Units, the 10 Units issued in Financial Year 2 pursuant to conversion of the convertible bonds and the 50 Units placed in other circumstances as described above will be taken into account)</li> <li>→ Maximum No. for Financial Year 3 is</li> </ul>	<p><math>202 - 0 = 202</math></p> <p><math>202 - 50 = 152</math></p> <p><math>1,010 + 10 + 50 = 1,070</math></p> <p><math>20\% \times 1,070 = 214</math></p>
<p><b>In Financial Year 3</b></p> <ul style="list-style-type: none"> <li>• If in Month 1, 10 Units are issued pursuant to conversion of the convertible bonds.</li> <li>→ After 10 Units are issued pursuant to conversion of the convertible bonds, the Maximum No. is (As the 10 Units issued have already been taken into account in Financial Year 1, they will not be taken into account again in Financial Year 3.)</li> <li>• If in Month 2, 120 Units are placed in other circumstances, in reliance on the General Mandate.</li> <li>→ After the 120 Units are issued, the remaining Maximum No. for Financial Year 3 is</li> <li>• If in Month 3, an adjustment event occurs under the terms of the convertible bonds, with the unforeseen result that the maximum number of new Units issuable under the convertible bonds (regardless of how many Units have already been issued pursuant to conversion of the convertible bonds) exceeds the aggregate number of Units originally determined by 70 Units (an announcement will be made by the Manager of the use of the proposed new Clause 7.5(i)(a) in Financial Year 3 as soon as possible after the relevant date in this context (i.e. the date when the adjustment event occurs).)</li> </ul>	<p><math>214 - 0 = 214</math></p> <p><math>214 - 120 = 94</math></p>



## 1. RESPONSIBILITY STATEMENT

The Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

## 2. DISCLOSURE OF INTERESTS IN UNITS

The following table sets forth information with respect to the interest and deemed interest of the Units, as at the Latest Practicable Date by: (i) each of the connected persons and (ii) each person known to the Manager to be interested in or deemed to be interested in more than 5% of the Units in issue.

	<b>Nature of Interest</b>	<b>Interests in Units</b>	<b>Approximate % of interest</b>
Yue Xiu	Beneficial	27,320	0%
	Deemed <sup>1, 2</sup>	325,959,760	32.6%
	Consideration Units <sup>3</sup>	65,972,687	6.6% <sup>4</sup>
	Total	391,959,767	36.8% <sup>5</sup>
GZI	Beneficial	—	—
	Deemed <sup>2</sup>	313,280,495	31.3%
	Consideration Units <sup>3</sup>	65,972,687	6.6% <sup>4</sup>
	Total	379,253,182	35.6% <sup>5</sup>
Dragon Yield	Beneficial	313,280,495	31.3%
	Consideration Units <sup>3</sup>	65,972,687	6.6% <sup>4</sup>
	Deemed	—	—
	Total	379,253,182	35.6% <sup>5</sup>
Mr. Cheng Jiuzhou	Personal	480	0%
Mr. Ip Wing Wah	Personal	1,900	0%
Ms. Ou Hai Jing	Personal	1,000	0%

### Notes

- Further information in relation to interests of corporations controlled by Yue Xiu.

Name of Controlled Corporation	Name of Controlling Shareholder	% interest Control	Direct (Y/N)	Number of Units
Excellence Enterprises Co., Ltd.	Yue Xiu	100.0	N	387,188,217
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	N	379,253,182
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	Y	5,698,282
Guangzhou Investment Company Limited	Bosworth International Limited	34.98	N	379,253,182
Dragon Yield	GZI	100.0	Y	379,253,182
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	4,744,230

2. The deemed interest in 313,280,495 Units were held through Dragon Yield.
3. Pursuant to the Agreement, 65,972,687 Consideration Units will be issued to the Vendor as part payment of the Purchase Consideration payable upon Completion.
4. The ratio is calculated on the total number of Units in issue as at the Latest Practicable Date.
5. The ratio is calculated on the basis of the total number of Units in issue as enlarged by the issue of 65,972,687 Consideration Units.

Save as disclosed above, none of the Manager, the Directors and the chief executive of the Manager is interested (or deemed to be interested) in Units or holds any short position in Units and the Manager is not aware of any connected persons of GZI REIT who are interested (or are deemed to be interested) in Units as at 14 January 2008.

### 3. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS AND IN COMPETING BUSINESSES

Save as disclosed in this Circular and the IPO Offering Circular, as at the Latest Practicable Date:

- (a) none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, since the Listing Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to GZI REIT;
- (b) none of the Directors or proposed Directors was materially interested in any contract or arrangement entered into by GZI REIT and subsisting at the date of this Circular which was significant in relation to GZI REIT's business; and

- (c) none of the Directors or proposed Directors or any of their associates have interests in a business which competes or is likely to compete, either directly or indirectly, with GZI REIT's business.

#### **4. STATEMENT IN RELATION TO FINANCIAL POSITION**

The Manager confirms that, as at the Latest Practicable Date, there has not been any material adverse change in the financial or trading position of GZI REIT since the Listing Date.

#### **5. EXPERTS AND CONSENTS**

Each of the Independent Financial Adviser and the Independent Property Valuer has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the Letter from the Independent Financial Adviser and the Independent Property Valuer's New Property Valuation Report, and all references thereto, in the form and context in which they are included in this Circular.

The following are the qualifications of the experts who have been named in this Circular or have given opinion or advice which is contained in this Circular.

<b>Name</b>	<b>Qualifications</b>
Yu Ming Investment Management Limited	a licensed corporation under the SFO to carry out types 1, 4, 6 and 9 regulated activities
Colliers International (Hong Kong) Ltd	Independent Property Valuer

None of the experts had any interest in GZI REIT or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in GZI REIT.

As at the Latest Practicable Date, none of the experts had any direct or indirect interest in any assets which have been, since the Listing Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to GZI REIT.

#### **6. LITIGATION**

As at the Latest Practicable Date, none of GZI REIT or the companies, directly or indirectly wholly-owned by the Trustee, was involved in any litigation or claims of material importance and no litigation or claims of material importance, by or against GZI REIT or any of the companies, directly or indirectly wholly-owned by the Trustee, was pending or threatened.

**7. MATERIAL CONTRACTS**

Save as disclosed in the IPO Offering Circular and save for the documents referred to in paragraphs 8(a) and (j) below, GZI REIT has not entered into any other material contracts (not being contracts entered into in the ordinary course of business) within the 2 years immediately preceding the date of this Circular. Please refer to the section headed “Letter from the Board — The Agreement” for details of the Agreement and to the IPO Offering Circular for details of the other material contracts.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office of the Manager from 9:00 a.m. to 5:00 p.m. on Business Days, from the date of this Circular, up to and including the date of the EGM:

- (a) the Agreement;
- (b) the Letter from the Independent Board Committee;
- (c) the Letter from the Independent Financial Adviser;
- (d) the Independent Property Valuer’s New Property Valuation Report;
- (e) the Trust Deed;
- (f) the proposed form of the supplemental deed to effect the amendments to the Trust Deed;
- (g) the IPO Offering Circular;
- (h) the written consent of the Independent Financial Adviser;
- (i) the written consent of the Independent Property Valuer; and
- (j) the Announcement.

*The following is the text of the valuation report received from Colliers International (Hong Kong) Limited, the Independent Property Valuer, prepared for the purpose of inclusion in this Circular, in connection with the valuation of the New Property as at 4 November 2007.*



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

[www.colliers.com](http://www.colliers.com)

4 February, 2008

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: Valuation of Portion of Yue Xiu Neo Metropolis Plaza (越秀新都會大廈) located at Nos. 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256 and 258, Zhongshanliu Road, Yuexiu District, Guangzhou City, Guangdong Province, The People's Republic of China (the "Property")**

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 Property for acquisition 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 the values of the Property as at 4 November, 2007 (the "Date of Valuation").

The market value of the Property as the Date of Valuation is RMB685,000,000.

We hereby confirm that:

- i) We have no present or prospective interest in the Property 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 valuation has been prepared on fair and unbiased basis;
- iv) We have not previously valued the Property; and
- v) 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 this valuation 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 19 years of experience in the valuation of properties in the PRC and 23 years of property valuation experience in Hong Kong and the Asia Pacific region.

**1. EXECUTIVE SUMMARY****1.1 Qualification of the Valuers**

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

He is suitably qualified to carry out the valuation and has over 25 years of experience in the valuation of properties of this magnitude and nature, and over 19 years of 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 Property.

**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 bureau, the Guangzhou Municipal People's Government and other public sources.

**1.3 Instructions**

We accepted instructions to conduct valuation of the Property as at the Date of Valuation from the Manager on behalf of GZI REIT for the acquisition purposes.

Our valuation has 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.

Inspection of the Property was carried out on 7 November 2007. We confirm that we have made relevant enquiries and obtained such information as we consider necessary to conduct the valuation.

**2. BASIS OF VALUATION****Market Value**

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

Our valuation is 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 Property in its existing state based on the basis that the Property can be freely transferred, mortgaged and let in the market and all proper title certificates have been obtained and land premium has been fully settled or if there is unsettled land premium, sufficient provision and/or indemnity has been provided so that the unsettled land premium will not have impact on the value of the property. We have also relied on the opinion of the PRC legal adviser, King & Wood (the “PRC Legal Opinion”).

### **3. VALUATION RATIONALE**

In our valuation, we have valued the Property for which the area is based on the proper title documents and the PRC Legal Opinion. In arriving at our opinion of value, we have considered prevailing market conditions, especially those related to the office 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 primary valuation method adopted to arrive at our opinion of value is the Income Capitalisation Approach and Discounted Cash Flow Analysis. We have also cross-checked the value with available market comparables by the Sales Comparison Approach.

The Income Capitalisation Approach reflects the specific characteristics of the Property 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 Property such as leases duration and potential rental income growth, renewed rates, vacancy rates and all outgoings.

In relation to the Sales Comparison Approach, we have obtained market comparables to undertake our calculations and considered that this approach reflects the market values of the Property. In valuing the Property, this approach has limitations in reflecting specific factors such as lease expiry profile, quality of existing tenant covenants and vacancy rates. In this approach, all these factors must be reflected in the unit rate per square metre.

In valuing the Property, we have used an average of the values derived using the Income Capitalisation Approach and the Discounted Cash Flow Analysis. This Sales Comparison Approach has been used as a check.

### **3.1 Income Capitalisation Approach**

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

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

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

### **3.2 Discounted Cash Flow Analysis**

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

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

In our assessment, we have assumed the Property is sold at the end of year 10 at a price based upon the forecast income in year 11, 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.

### **3.3 Sales Comparison Approach**

This approach estimates the value of the properties by comparing recent sales of similar interests in the land or buildings located in the surrounding area.

By analysing sales which qualify as “arms-length” transactions, between willing buyers and sellers, adjustments can be made for time, location, size, usage, amenity, building age, building conditions and other relevant factors when comparing such sales against the property. This approach is commonly used to value standard properties in the PRC when reliable sales evidence is available.

## **4. TITLE PARTICULARS**

### **4.1 Title Investigation**

We have been provided with extracts from title documents relating to the Property. 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 PRC Legal Opinion, concerning the validity of the titles to the Property held by Guangzhou Jieyacheng Properties Co., Ltd. in the PRC.

### **4.2 The PRC Legal Opinion**

In our valuation, we have relied on the PRC Legal Opinion on the validity of the Property's title.

According to the PRC Legal Opinion, the Property Company has already obtained right and title of the Property. In the future, if the Property Company transfers interest relating to the basement floors and parts of the common facilities and areas, a land premium is payable to Guangzhou Administrative Bureau for Land Resources and Housing.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

## **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 valuation in Hong Kong Dollars. The exchange rate adopted as at the Date of Valuation was HK\$1 = RMB0.970.

**6. CAVEATS AND ASSUMPTIONS**

The valuation is subject to the following caveats and assumptions:

- (a) We have inspected the exterior and interior of the Property. No tests were carried out on any of the services.
- (b) Based on the PRC Legal Opinion, we have assumed that the Property is 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 Property and our valuation assumes that none exists.
- (c) We have assumed that the Property has 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 Property 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 valuation has been made on the assumption that the owners sell the Property 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 value of Property. In addition, no forced sale situation in any manner is assumed in our valuation.
- (e) No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances including material building defects, restrictions and outgoings of an onerous nature which could affect its value.
- (f) We have relied to a very considerable extent on the information provided by the relevant parties:
  - property information, including rent roll, floor plans, property particulars, etc. by the Manager; and
  - the PRC legal adviser
- (g) We have not carried out detailed site measurements to verify the correctness of the site and floor areas in respect of the Property 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. No on-site measurement has been taken.

- (h) We have inspected the exterior and where possible, the interior of the Property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services of the Property.
- (i) We have had no reason to doubt the truth and accuracy of the information provided to us by the Manager and the PRC legal advisor. 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 the PRC legal advisor and subsequent conclusions derived from such data and information.
- (j) The study of possible alternative development options and the related economics are not within the scope of this report.

**Yue Xiu Neo Metropolis Plaza ( 越秀新都會大廈 )**



Valuation of Portion of Yue Xiu Neo Metropolis Plaza ( 越秀新都會大廈 ) located at Nos. 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256 and 258, Zhongshanliu Road, Yuexiu District, Guangzhou City, Guangdong Province, the PRC.

**1. Summary of the property**

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

- 1. Current Registered Owner : Guangzhou Jieyacheng Properties Co., Ltd.
- 2. Type of Land Use Right : Granted

3. Town Plan Zoning : The zoning of the underlying land of Yue Xiu Neo Metropolis Plaza was described as “commercial and office”.
4. Interest Valued : Leasehold interest of the Property.
5. Property Description : The Property comprises a portion of a 23-storey commercial and office building over a 3-storey basement for retail and carparking uses.
6. Gross Floor Area (“GFA”) of the Property : Total — 61,964.34 sq.m.
- Commercial Portion (B1 to L4)  
— 15,445.50 sq.m.
- Office Portion (L5 to L23) excluding L6 — 34,441.75 sq.m.
- Carparking spaces (Basement 2 — Basement 3)  
— 7,549.03 sq.m.
- Others (including clubhouse on L6 and common facilities area) — 4,528.06 sq.m.
- The total gross floor area of the whole development — 85,750.76 sq.m.*
7. Lease Term : Commercial portion — 40 years from 22 November 2005
- Office portion — 50 years from 22 November 2005
- Carpark portion — 50 years from 22 November 2005
8. Usage : Commercial/Office
9. Gross Rentable Area of the Property : 49,887.25 sq.m.
10. Completion Date : 28 April 2007
11. Market Value in existing state as at the Date of Valuation : RMB685,000,000
12. Net Passing Income as at the Date of Valuation<sup>1</sup> : RMB1,781,703 per month

13. Discount Rate adopted for Discounted Cash Flow Analysis only : 11.5%
14. Term Yield : Office — 9.0%  
Retail — 10.0%
15. Reversionary Yield : Office — 10.0%  
Retail — 11.0%
16. Occupancy Rate as at the Date of Valuation : Overall - 75.1%  
Office - 74.6%  
Retail - 76.0%
17. Vacancy Allowance : Office: Year 1 - 30.0%  
Office: Years 2 to 10 - 10.0%  
Retail: 1.0%
18. Estimated Current Net Yield Based on Current Net Passing Income : 3.1%
19. Remarks: : The Property is not subject to mortgage.

*Note 1:* Please refer to 2.8 “Current Rental Income” for full description of Net Passing Income.

## 2. The Property

### 2.1 *Situation and Locality*

Yue Xiu Neo Metropolis Plaza is located in Zhongshanliu Road, Yuexiu District, Guangzhou City, Guangdong Province, the PRC. It is linked directly to the Ximenkou (西門口) underground metro station.

Yuexiu District is one of the oldest urban areas in Guangzhou where provincial and municipal governments are located and is a traditional shopping centre of Guangzhou where the commerce is very prosperous. The well-known commercial and shopping areas include Beijing Road Pedestrian Street, Yide Road Dried Seafood Market, Toy Street, White Horse Building, Zhuangyuanfang Stationary Street, Bar Street along Yanjiang Road, Gaodi Street Clothing Business Street, Street Market of Printing Ink and Presswork Products in Tiancheng Road, Decoration Market Street in Taikang Road, Lamp and Flower Market Street, Jiefang Road Electronic products Market Street, Haopan Street—Leather and Shoes Material Business Street, HuiFu Road Food Street, etc. All these have attracted the attention of numerous tourists and commercial investors.

### 2.2 *Surrounding Development and Environmental Issues*

The Property is located in Yuexiu District. Developments in the area comprise mainly a mixture of old and new mid-rise commercial buildings and residential developments, interspersed with older low to medium-rise residential buildings.

The pedestrian traffic flow along that section of Zhongshanliu Road is heavy as it is located near the junction of Renmenzhong Road.

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

### ***2.3 Availability of and Access to Public Transport***

General accessibility of Yue Xiu Neo Metropolis Plaza is considered good as public transportation such as taxis and buses are available along Zhongshanliu Road and Reminzhong Road. Ximenkou Exit of Metro Station is directly connected to basement level 1 of Yue Xiu Neo Metropolis Plaza.

Yue Xiu Neo Metropolis Plaza is located in approximately 20 minutes driving distance from the Guangzhou East Train Station.

### ***2.4 Car Accessibility and Road Frontage***

Yue Xiu Neo Metropolis Plaza is directly accessible from Zhongshanliu Road.

### ***2.5 Description of the Development***

Yue Xiu Neo Metropolis Plaza, a Grade B commercial complex, is located in Zhongshanliu Road, Yuexiu District in Guangzhou's traditional urban shopping area. According to the information provided by the Manager, the total development has a total gross floor area of 85,750.76 sq.m.

The site of the building comprises a regular L-shaped and level plot having its main frontage onto Zhongshanliu Road upon which comprises a portion of a 26-storey commercial building (include 3 basement levels) has been erected and was completed in 2005.

The main entrance of Yue Xiu Neo Metropolis Plaza is onto the junction of Zhongshanliu Road and Remin Road North.

Some famous multinational companies have relocated to Yue Xiu Neo Metropolis Plaza, such as E-go Digital World, Ping An Insurance, GOME Electric Appliance, Bank of China and Fairwood Fast Food.

Car parking facilities are provided within 2 basement levels while a podium garden, a club, business centre and other ancillary facilities are located on Level 6 and Refuge Level.

The layout and design of Yue Xiu Neo Metropolis Plaza is reasonable in comparison with the other office buildings in the locality.

### 2.6 *Portion of Interest to be acquired by GZI REIT*

GZI REIT is acquiring a portion of the Property and the details of the interest to be acquired are listed below:

Level	Usage	Gross Floor Area (sq.m.)
Basement 2 and 3	Carparking ( <i>Note</i> )	7,549.03
Basement 2	Common Facilities	487.79
Basement 1	Common Facilities	511.62
Basement 1 to Level 4	Commercial / Retail	15,445.50
Level 5, Level 7 to Level 23	Office	34,441.75
Level 1	Common Facilities	303.99
Level 2	Common Facilities	70.53
Level 3	Common Facilities	127.35
Level 3	Refuge Floor	1,121.80
Level 6	Club House	1,578.49
Level 6	Common Facilities	158.04
Level 24	Common Facilities	168.45
	<b>Total</b>	<b><u>61,964.34</u></b>

*Note:* The total floor area of the carparking spaces is approximately 7,621 sq.m. including approximately 72 sq.m. to be distributed to the predecessor of the Domestic JV Partner.

### 2.7 *Specification, Services and Finishes of the Development*

Yue Xiu Neo Metropolis Plaza is constructed of reinforced concrete with glazed tiling to the exterior elevations and is decorated with marble or granite wall and tiled floor at the main lobby. Main services comprising electricity, water and telecommunications are connected to the building.

The building is subdivided into various units on all levels and is served by 7 passenger lifts serving all levels.

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

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

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

### **2.8 Current Rental Income**

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

<b>Gross Floor Area</b> <i>(sq.m.)</i>	<b>Monthly Net</b> <b>Passing Income</b> <i>(RMB)</i>	<b>Annual Net</b> <b>Passing Income</b> <i>(RMB)</i>
61,964.34	1,781,703	21,380,436

According to the information provided by the Manager, the net passing income is defined as total cash rental income generated by the Property. This may differ from rental income primarily due to the rent free period that is being enjoyed by some of the tenants (the rent free period for the Property ranges from one to six months with an average of approximately three months). Based on the rent roll supplied by the Manager, approximately 44.1% of the rental income for the month ended October 2007 is enjoying the rent free period.

Additionally, we understand that the net passing income is exclusive of property management fee and other outgoings such as water, electricity, gas, telephone, air-conditioning charges and etc.

The Property comprises a number of tenants from various industries such as banking, finance, property agency, information technology, food & restaurants and electricity appliances 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, about 25.4% and 24.0% of the office and retail portions are vacant respectively.

About 12,449.34 sq.m. is vacant as at the Date of Valuation.

Existing major tenants include E-go Digital World, Ping An Insurance, GOME Electric Appliance, Bank of China and Fairwood Fast Food.

**2.10 Lease Cycle Duration and Expiry Profile**

In general, the typical lease terms of all tenancies vary between around 2 and 10 years and are on normal local commercial terms with agreed net monthly rentals generally ranging between RMB70 per sq.m. and RMB500 per sq.m. with an average unit monthly net rental income of RMB96.81 per sq.m. and RMB79.18 per sq.m for retail and office portions respectively.

According to the supplied rent roll, the typical rent-free period for all new leases of office portion is 1 month. For retail portion, the typical rent-free period for all new leases range between 3 and 6 months.

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

<b>Lease term greater than (year)</b>	<b>Lease term less than or equal to (year)</b>	<b>By Leased Area (%)</b>
0	1	0.9
1	2	14.3
2	3	34.3
3	4	1.9
4	5	15.9
5	6	8.4
6	10	24.3
		<u>100.0</u>

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

<b>% of tenancies due to expire in each year</b>	<b>By Leased Area (%)</b>
2008	0.9
2009	14.3
2010	34.3
2011	1.9
2012 and beyond	48.6
	<u>100.0</u>

**2.11 Summary of Material Rent Review Provisions**

The Property has the following material rent review provisions:

Unit	Level	Gross Floor Area (sq.m.)	Net Monthly		Lease Term From	Lease Term To
			Gross Rental Income (RMB)			
B101	Basement 1	813.31	77,265		1/9/2007	30/6/2009
			81,128		1/7/2009	30/6/2010
			85,187		1/7/2010	30/6/2011
			89,448		1/7/2011	30/6/2012
240	1	283.8	141,900		1/4/2007	31/12/2008
			148,995		1/1/2009	31/12/2009
			156,445		1/1/2010	31/12/2010
			164,267		1/1/2011	31/12/2011
1503	15	164.55	13,164		1/7/2007	31/5/2009
			13,822		1/6/2009	31/5/2010
1610	16	187.35	14,988		16/7/2007	31/5/2009
			15,925		1/6/2009	31/5/2010
1601	16	128.49	10,279		1/4/2007	29/2/2008
			10,536		1/3/2008	28/2/2009
			10,922		1/3/2009	28/2/2010

As advised by the Manager, there are no sub-leases or tenancies in the Property except E-go Digital World.

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 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, Guangzhou Jieyacheng Properties Co. Ltd. (the "Property Company") and Guangzhou Yicheng Property Management Limited (the "Leasing Agent") for an initial term of 3 years. Under this agreement the Leasing Agent 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.

### 2.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are RMB8 per sq.m. and RMB15 per sq.m. for office and retail portions respectively. The monthly management fees 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 valuation, we have considered transacted rental income comparables within similar prime office and retail developments in the locality.

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

In our assessment, the term yields adopted are 10.0% for the retail component and 9.0% 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 11.0% for the retail component and 10.0% 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 which is less mature and more volatile compared to the office market in Guangzhou.

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). We consider the comparables are sufficient to derive the market rental of the Property.

Based on the above, we have valued the Property at a value of RMB689,000,000.

### **3.2 *Discounted Cash Flow Analysis***

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

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

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

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

<b>Property</b>	<b>Office Portion</b>	<b>Retail Portion</b>
Terminal Capitalisation Rate	10.0%	11.0%
Discount Rate	11.5%	11.5%
Growth Rate - Years 1 to 10	4.0%	6.0%
Vacancy loss - Year 1	30.0%	1.0%
Vacancy loss - Year 2	10.0%	1.0%
Vacancy loss - Years 3 to 10	10.0%	1.0%
Bad Debts	0.5%	0.5%

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

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

<b>Projected Outgoings Items</b>	<b>Projected Outgoings</b>
Service Fees based on the tenancy services agreement	4.0% of rental income
Cost of Large Scale Repair and Maintenance	1.0% of rental income
Sundry Expenses	0.1% of rental income
Insurance	0.3% of rental income
Business Tax	5.0% of rental income
Flood Prevention Fee	0.09% of rental income
Stamp Duty	0.1% of rental income

According to the Manager, the urban real estate tax is waived for three years. In our calculation, we have not regarded the urban real estate tax.

Based on the above, we have valued the Property at a value of RMB680,000,000 taking account of outgoings on the taxes and cost items.

### **3.3 Sales Comparison Approach**

We have adopted the Sales Comparison Approach as a cross-check with income capitalisation approach. In the Sales Comparison Approach, we have considered the sales of similar properties and related market data and established a value by adjustments of the comparables.

In preparing our valuation of the Property, we have considered transacted comparables within similar retail and office developments in the locality. Adjustments have been made based on our own judgment and knowledge of the market. Adjustments have been made for time, location, building quality, size, pedestrian flow and etc.

Based on the above, we have valued the Property at a value of RMB 681,000,000 taking no account of outgoings on the structure, taxes and other landlord costs.

#### 4. Valuation Summary

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

<b>Valuation Method</b>	<b>Value (RMB)</b>	<b>Value (HK\$)</b>
Income Capitalisation	689,000,000	710,300,000
Discounted Cash Flow	680,000,000	701,000,000
Sales Comparison	681,000,000	702,100,000

We are of the opinion that the Market Value of the Property in its existing state as at the Date of Valuation was **RENMINBI SIX HUNDRED AND EIGHTY-FIVE MILLION ONLY (RMB685,000,000)** assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Property is an average of the values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

**OVERVIEW OF OFFICE AND RETAIL MARKET IN GUANGZHOU CITY****Office**

Guangzhou is the economic centre of the Pearl River Delta and is the heart of one of mainland China's leading commercial and manufacturing regions. Up to the third quarter of 2007, the GDP has reached about RMB500 billions (USD 67.5 billions), 14.5% higher than the last year. In 2006, the GDP for the whole year exceeded RMB600 billions (USD 76.8 billions), per capita was RMB85,000 (about US \$11,000), ranking first among the other 659 Chinese cities. In the third quarter of 2007, the amount of Guangzhou's imports and exports in foreign economy and trade has reached about USD 54.1 billions, 16.2% higher than the last year. While in 2006, the total amount of Guangzhou's imports and exports in foreign economy and trade hit USD 63.767 billion, 19.22 percent up. It is estimated that there is an 8 percent increase in Guangzhou's actual utilization of direct foreign investments and a 12 percent increase in its foreign trade exports. The actual utilization of direct foreign investments has reached about USD26.37 billions up to the third quarter of 2007, 18.4% higher than the last year. In 2007, Guangzhou continues to one of the major distribution centres in China which accounted for more than 70% of the turnover for all commercial goods in the city.

In recent years, the Guangzhou Municipal People's Government has launched a lot of policies to help those companies setting up headquarters or subsidiaries in the district. It attracts a lot of merchants specializing in the trade of clothes and fabrics, watches and foods setting up companies in Guangzhou. This creates a large demand for both retail and office spaces.

Since these companies are not as large as other MNCs, their requirements for offices are not the same as those large companies. The standard of services and facilities of Grade B office is considered to be sufficient for them to carry out their business at a reasonable cost. Moreover, as the developers focus more on the Grade A office development. For the remainder of 2007, it is estimated that over 370,000 sq. m. new Grade A office will be completed by the end of 2007.

In spite of the increasing supply of office spaces, there was a downward adjustment of the overall vacancy rate of Grade A office in 2Q 2007 due to a temporary demand-supply imbalance during that period. On the other hand, due to the limited supply and robust demand for Grade B office, the vacancy rate of "Grade B" office was generally below 15% in 2006.

On January 16th, 2007, the Guangzhou Foreign Economic and Trade Meeting has stated that Yuexiu should be turned into a district attracting foreign capital and could vigorously encourage foreign merchants to make investments in the modern service sectors and build regional service centres. The Tianhe and Yuexiu Districts could further boost their economies by attracting more of hi-tech enterprises. The above policy would further boost the demand for Grade B Office in the long run. While the supply of Grade B office still cannot meet the demand in 2007, rentals and capital values are expected to have robust rise. The average vacancy rate foresees a significant drop in 2008.

**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.

Yuexiu is the city's traditional shopping centre. Developments in the area comprise mainly commercial buildings and retail shopping and wholesales centres, interspersed with some older medium-rise residential buildings. The main garment wholesale area of Guangzhou is situated around Zhan Nan (close to the Guangzhou Railway Station and major expressways). As long as Per capita annual income remains the highest among all cities in China, enhanced purchasing power will increase demand for quality goods and services, strengthening the retail market.

In recent years, retailers were increasingly being active in securing retail space to cope with their expansion plans. Demand and take-up was particularly strong for recently completed high-end shopping malls. The launch of four railway lines brought in stable pedestrian traffic flows, making retail properties at stations the most preferred outlets for brand name retailers.

Strong retail sales in 2007 have attracted many retailers to set up and expand in Guangzhou City. The retail sales volume grew by about 15% YoY to RMB 103 billion during the first five months of 2007. In 2007, no new retail premises is completed. In 2008, there are four projects scheduled for completion with a total floor space of 280,000 sq. m. Some of these upcoming retail spaces have been pre-committed, including UA Cinema and Robbinz Department Store.

Responding to increasing retail demand, there are six major shopping malls planned to come onto the market by 2010. All of these malls will be developed above or adjacent to existing metro stations. These will provide a total of 316,000 sq m of new retail space. None of these new shopping malls are located in Yuexiu District where the two subject properties of Comic City and the Beijing Road retail development project are situated. On an annual basis, these projects will provide an additional 180,000 sq. m. in 2007, 100,000 sq. m. in 2008 and 35,000 sq. m. in 2009. 70% of this space will be constructed in the Tianhe District of Guangzhou with the remainder being built in Pearl River New Town. Since there will be no new supply of new shopping malls in Yuexiu district, the increasing demand for retail spaces near Metro stations cannot be met with the existing supply in the short term. We expect that the demand for retail space in the district will strengthen further in the short to medium term due to no supply in the Yuexiu district. Going forward, the rentals and capitals are expected to rise significantly.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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

(Stock Code: 405)

*(a Hong Kong collective investment scheme authorised under section 104  
of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

Managed by



越秀房託資產管理有限公司  
**GZI REIT Asset Management Limited**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an EXTRAORDINARY GENERAL MEETING of the unitholders (the “**Unitholders**”) of GZI Real Estate Investment Trust (“**GZI REIT**”) will be held at 26/F., Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong on Tuesday, 26 February 2008 at 9:30 a.m. (“**EGM**”) for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions:

### SPECIAL RESOLUTIONS EXPANSION OF GEOGRAPHICAL SCOPE

1. “**THAT:**

- (a) pursuant to Clause 19.2(e)(ii) of the trust deed constituting GZI REIT dated 7 December 2005 (“**Trust Deed**”) entered into between HSBC Institutional Trust Services (Asia) Limited, as trustee of GZI REIT (“**Trustee**”), and GZI REIT Asset Management Limited, as the manager of GZI REIT (“**Manager**”), approval be and is hereby given for the investment policy, strategy and objective for GZI REIT to be amended so as to permit investment in real estate in the PRC (including Hong Kong and Macau);
- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the matters resolved upon in sub-paragraph (a) of this resolution.”

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### AMENDMENT TO TRUST DEED

2. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the amendment of Clause 7.6 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“7.6 Any issue, grant or offer of Units or Convertible Instruments to a Connected Person will require specific prior approval of Holders by Ordinary Resolution at a meeting to be convened by the Manager in accordance with Schedule 1, unless such issue, grant or offer is made under the following circumstances (where, for the avoidance of doubt, no Holders’ approval will be required):

- (a) the Connected Person receives a pro rata entitlement to Units and/or Convertible Instruments in its capacity as a Holder; or
- (b) Units are issued to a Connected Person under clause 15.1(e) in or towards the satisfaction of the Manager’s Fee; or
- (c) Units and/or Convertible Instruments are issued to a Connected Person within 14 days after such Connected Person has executed an agreement to reduce its holding in the same class of Units and/or Convertible Instruments by placing such Units and/or Convertible Instruments to or with any person(s) who is /are not its associates(s) (other than any Excluded Associate), provided always that (i) the new Units and/or Convertible Instruments must be issued at a price not less than the placing price (which may be adjusted for the expenses of the placing); and (ii) the number of Units and/or Convertible Instruments issued to the Connected Person must not exceed the number of Units and/or Convertible Instruments placed by it.”;
- (b) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the amendment of Clause 1.1 of the Trust Deed by inserting the following definition of “Excluded Associate” immediately after the definition of “**Distribution Period**”.

““**Excluded Associate**” means any person or entity who/which is an associate of the relevant Connected Person solely by virtue of the operation of paragraphs (b), (c) and/or (k) (other than a related corporation covered under paragraph (a) of the definition of “related corporation” in Schedule 1 of the Securities and Futures Ordinance) of the definition of “associate” in Schedule 1 of the Securities and Futures Ordinance;” and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (c) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clauses 1.1 and 7.6 of the Trust Deed.”

3. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the amendment of Clause 9.2 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“9.2 After the Listing Date, and for so long as the Units are admitted for trading on SEHK:

- (a) the Manager may, subject to clause 7.4, effect or agree to effect the issue of Units on behalf of the Trust (whether directly, or pursuant to any Convertible Instruments) on any Business Day at an Issue Price per Unit that is:
- (i) equal to the Market Price; or
  - (ii) in its discretion, at a discount of no more than 20% to the Market Price or at a premium to the Market Price; or
  - (iii) where approval by way of an Ordinary Resolution is obtained pursuant to clause 9.2(b), on the pricing basis as authorised in such Ordinary Resolution.

For the avoidance of doubt, the Issue Price shall, in the case of any Convertible Instrument, mean the initial price per Unit at which Units are to be issued pursuant to the exercise of any conversion, exchange or subscription or similar rights under such Convertible Instruments, before any adjustments which may apply thereunder (the “**Initial Issue Price**”); and

- (b) an issue of, or agreement (whether conditional or unconditional) to issue, new Units at an Issue Price or Initial Issue Price (as the case may be) that is otherwise than in accordance with the pricing basis and/or discount allowed in clauses 9.2(a)(i) or 9.2(a)(ii) above, will require specific prior approval of Holders by Ordinary Resolution at a meeting to be convened by the Manager in accordance with Schedule 1, and such approval may be

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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subject to such conditions as the Holders may approve, including without limitation stating the basis of pricing, or authorising the Manager to determine the pricing basis on such terms as are authorised under that Ordinary Resolution.

For the purposes of this Deed, “**Market Price**” shall mean the price as determined by the Manager, being the higher of:

- (aa) the closing price of the Units on the SEHK on the date of the relevant agreement or other instrument for (i) the proposed issue of Units, or (ii) the proposed issue of any Convertible Instruments; and
- (bb) the average closing price of the Units in the ten Trading Days immediately prior to the earlier of:
  - (i) the date of announcement of (1) the proposed issue of Units, or (2) the proposed issue of any Convertible Instruments;
  - (ii) the date of the relevant agreement or other instrument for (1) the proposed issue of Units, or (2) the proposed issue of any Convertible Instruments; and
  - (iii) the date on which the Issue Price is fixed.

Notwithstanding sub-clauses (aa) and (bb) of this clause, for the purposes of clause 15.1(e)(iii), “**Market Price**” shall mean the price as determined by the Manager as being the higher of (i) the closing price of the Units on the SEHK on the Trading Day immediately preceding the date on which the relevant Units are issued to the Manager pursuant to clause 15.1(e); and (ii) the average closing price of the Units in the 10 Trading Days immediately preceding the date on which the relevant Units are issued to the Manager pursuant to clause 15.1(e).”; and

- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 9.2 of the Trust Deed.”

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4. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the amendment of Schedule 1 to the Trust Deed by inserting the new paragraph below immediately after paragraph 3.7 of Schedule 1 to the Trust Deed:

“3.7A The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority shall be deposited at such place as the Manager or the Trustee may in the notice convening the meeting direct, or if no such place is appointed then at the registered office of the Registrar, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote; and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date stated in it as the date of its execution. Delivery of an instrument appointing a proxy shall not preclude a Holder from attending and voting at the meeting and, in such event, the instrument appointing the proxy shall be deemed to be revoked. A person appointed to act as a proxy need not be a Holder.”; and

- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Schedule 1 to the Trust Deed.”

5. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for paragraph 2.2 of Schedule 1 to the Trust Deed to be deleted in its entirety and replaced with the text below:

“2.2 (a) 14 days’ notice at the least (exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of every meeting to be held shall be given to the Holders in the manner provided in this Deed, except that 21 days’ notice at the least (exclusive of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of such meeting shall be given to the Holders where a Special Resolution is proposed for consideration at such meeting. The notice shall specify the place, day and hour of meeting and the terms of any resolution to be proposed thereat. A copy of the notice shall be sent by post to the Trustee, unless the meeting is convened by the Trustee in which case a copy of the notice shall be sent by post to the Manager. The accidental omission to give notice to or the non-receipt of notice by any of the Holders shall not invalidate the proceedings at any

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meeting. In this paragraph 2.2, Holders means the persons who were Holders on the date seven days before the notice under paragraph 3 of this Schedule 1 was sent, but excluding any persons who are known not to be Holders at the time of the meeting or at any other relevant time. Where a meeting is adjourned, this paragraph 2.2 applies as if the reference to the notice given under this paragraph 2.2 was a reference to the notice of the adjourned meeting given under paragraph 4.1 of this Schedule 1.

(b) For the purpose of this Deed, any notice required to be served upon a Holder shall be deemed to have been duly given if sent by post to or left at his address appearing in the Register or in the case of joint Holders, to the joint Holder whose name stands first in the Register. Any notice so served by post shall be deemed to have been served on the day following the day of posting and in proving such service it shall be sufficient to prove that the letter or other document containing the notice was properly addressed, stamped and posted.”; and

(b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to paragraph 2.2 of Schedule 1 to the Trust Deed.”

6. **“THAT:**

(a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 7.5 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“7.5 (i) Subject to clause 7.6, Units may be issued, or agreed (conditionally or unconditionally) to be issued, in any Financial Year (whether directly or pursuant to any Convertible Instruments), otherwise than on a pro rata basis to all existing Holders, without the approval of Holders, if:

(a) the total number of new Units issued, or agreed (conditionally or unconditionally) to be issued, in that Financial Year pursuant to this clause 7.5, without taking into account:

(1) any new Units issued or issuable in that Financial Year pursuant to any Convertible Instruments issued (whether in that or any prior Financial Year) pursuant to and in compliance with this clause 7.5, to the extent that such new Units are covered by the aggregate number of new Units contemplated under clause 7.5(i)(b) at the Relevant Date applicable to the relevant Convertible Instruments;

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- (2) such number of new Units issued or issuable pursuant to any such Convertible Instruments as a result of adjustments arising from the consolidation or sub-division or re-designation of Units;
- (3) any new Units issued in that Financial Year pursuant to any agreement for the issuance of Units, to the extent that such new Units were previously taken into account in the calculation made under this clause 7.5(i)(a) (whether in that or any prior Financial Year) at the Relevant Date applicable to that agreement; and/or
- (4) any new Units issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Holders and in respect of which the specific prior approval of Holders in accordance with the relevant requirements hereunder and under applicable laws and regulations (including the REIT Code) has been obtained;

PLUS

- (b) (1) the maximum number of new Units issuable at the Initial Issue Price (as defined in clause 9.2) pursuant to any Convertible Instruments issued, or agreed (conditionally or unconditionally) to be issued, otherwise than on a pro rata basis to all existing Holders and whose Relevant Date falls within that Financial Year; and
- (2) the maximum number of any other new Units which may be issuable pursuant to any such Convertible Instruments as at the Relevant Date thereof as estimated or determinable by the Manager in good faith and using its best endeavours and confirmed in writing to the Trustee and the SFC, having regard to the relevant terms and conditions of such Convertible Instruments (including any additional new Units issuable under any adjustment mechanism thereunder other than adjustments arising from the consolidation, sub-division or re-designation of Units),

does not increase the number of Units that were outstanding at the end of the previous Financial Year (or, in the case of an issue of, or an agreement (whether conditional or unconditional) to issue, Units or Convertible Instruments during the first Financial Year, the number of Units that were outstanding as at the Listing Date) by more than 20% (or such other percentage of outstanding Units as may, from time to time, be prescribed by the SFC).

- (ii) Any issue of, or any agreement (whether conditional or unconditional) to issue, new Units exceeding the threshold in this clause 7.5 will require specific prior approval of Holders by Ordinary Resolution at a meeting to be convened by the Manager in accordance with Schedule 1.

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(iii) For the purposes of this clause 7.5, clause 7.6 and clause 9.2:

(a) **“Convertible Instruments”** means any securities convertible or exchangeable into Units, or any options or warrants or similar rights for the subscription or issue of Units (or securities convertible or exchangeable into Units), issued by the Trust or any Special Purpose Vehicle; and references to an issue of Units **“pursuant to any Convertible Instruments”** means an issue of Units pursuant to exercise of any conversion, exchange and/or subscription or similar rights (as the case may be) under the terms and conditions of such Convertible Instruments; and

(b) **“Relevant Date”** means, as the case may be, the date of the relevant agreement or other instrument for the issue or proposed issue of any Units or Convertible Instruments, or the date of the grant of any Convertible Instruments, whichever is the earlier.”; and

(b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 7.5 of the Trust Deed.”

7. **“THAT:**

(a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 15.1(e) of the Trust Deed to be deleted in its entirety and replaced with the text below:

“(e) Remuneration payable to the Manager pursuant to clauses 15.1(b)(i) and 15.1(b)(ii) (**“Manager’s Fee”**) shall be paid to the Manager in the form of cash and/or Units (as the Manager may elect).

(i) Upon the publication of the semi-annual financial statements of the Trust and the audited financial statements of the Trust, the Manager shall, within 15 days thereof, compute the Manager’s Fee for the relevant period and submit an invoice with such computation of the Manager’s Fee to the Trustee. The Trustee shall pay or procure the payment of the Manager’s Fee to the Manager (in the form of cash and/or Units, as the case may be) on the day falling 14 days after its receipt of the invoice (or, if that day is not a Business Day, on the Business Day next following that day).

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (ii) The Manager shall make the elections under clause 15.1(e) for the payment of the Manager's Fee in cash and/or Units, and (if applicable) the respective percentages of the Manager's Fee to be paid in cash and/or in Units, annually on or before 15 January of each year by way of notice in writing to the Trustee and an announcement to the Holders, such election to be irrevocable during the year in which it was made. In the event that the Manager fails to make such an election in any year, the most recent valid election made by the Manager in a prior year (if any) shall apply and, if there is no such prior year election by the Manager, the Manager's Fee (as applicable) shall be paid in cash.
  - (iii) When paid in the form of Units, the Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Manager's Fee at the prevailing Market Price at the time of the issue of such Units as determined under clause 9.2. In the event payment is to be made in the form of Units and the relevant threshold for the issuance of Units without Holders' approval (including the threshold of 20% (or such other percentage as permitted by the REIT Code) of outstanding Units that the Manager may issue in each Financial Year without Holders' approval pursuant to the REIT Code, and any other limit or threshold specified in any waiver from strict compliance with the REIT Code granted by the SFC) are exceeded and Holders' approval is not obtained, then payment of that excess part of the Manager's Fee will be paid in the form of cash.
- (f) Remuneration payable to the Manager pursuant to clauses 15.1(b)(iii) and 15.1(b)(iv) shall, at the election of the Manager, be paid in the form of cash, or with the prior approval of Holders by an Ordinary Resolution, be paid entirely in the form of Units or partly in cash and partly in the form of Units. When paid in the form of Units,
- (i) for transaction fee in relation to acquisition, the Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of transaction fee at the issue price of Units issued to finance or part finance the acquisition of such Real Estate in respect of which the transaction fee is payable or, where Units are not issued to finance or part finance such acquisition, at the issue price which is equal to the highest of:
    - (1) the average closing price of the Units for the 10 Trading Days on the SEHK immediately prior to the date of entry of the agreement for such acquisition;
    - (2) the average closing price of the Units for the 10 Trading Days on the SEHK immediately prior to the date of the announcement in respect of such acquisition; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (3) the average closing price of the Units for the 10 Trading Days on the SEHK immediately prior to the date of completion of such acquisition,

in each case rounded down to the nearest whole number of Units and with any remaining amount to be paid in cash. In the event any part of the transaction fee is to be made in the form of Units and Holders' approval is not obtained, then payment of that part of the transaction fee will be paid in the form of cash;

- (ii) for transaction fee in relation to disposal, the Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the transaction fee at the issue price which is equal to the highest of:

- (1) the average closing price of the Units for the 10 Trading Days on the SEHK immediately prior to the date of entry of the agreement for such divestment;

- (2) the average closing price of the Units for the 10 Trading Days on the SEHK immediately prior to the date of the announcement in respect of such divestment; and

- (3) the average closing price of the Units for the 10 Trading Days on the SEHK immediately prior to the date of completion of such divestment,

in each case rounded down to the nearest whole number of Units and with any remaining amount to be paid in cash. In the event any part of the transaction fee is to be made in the form of Units and Holders' approval is not obtained, then payment of that part of the transaction fee will be paid in the form of cash.”; and

- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 15.1(e) of the Trust Deed.”

8. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 15.2 of the Trust Deed to be amended by inserting the new paragraph below immediately after Clause 15.2(e):

“(f) If the Trustee finds it expedient or necessary or is required by the Manager to undertake duties of an exceptional nature or otherwise outside the scope of the Trustee's normal duties in the ordinary and normal course of business of the

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Trust, including but not limited to any services in relation to the acquisition of or divestment or disposal of Real Estate by the Trust after its Initial Public Offering, the Trustee is entitled to charge, out of the Deposited Property, such fees on a time cost basis as agreed with the Manager (the “**Trustee’s Additional Fees**”), provided that, unless otherwise approved by the Holders by way of an Ordinary Resolutions:

- (i) the aggregate amount of the Trustee’s Additional Fees that may be charged by the Trustee in relation to each transaction to be entered into by the Trust shall not exceed 0.05% of (aa) the total consideration payable by the Trust for such Real Estate (in the case of an acquisition of any Real Estate whether directly or indirectly by the Trust) but excluding the Acquisition Cost; or (bb) the total consideration receivable by the Trust for such Real Estate (in the case of a sale or disposal of Real Estate whether directly or indirectly held by the Trust) but excluding any transaction cost; and
  - (ii) the aggregate amount of the Trustee’s Additional Fees that are not related to any acquisition or sale or disposal of Real Estate as referred to in (i) above that may be charged by the Trustee for each Financial Year shall not exceed an amount equal to 50% of the annual fee to which the Trustee is entitled under clause 15.2(b)(ii) for the Financial Year.”; and
- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 15.2 of the Trust Deed.”

9. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clauses 19.5(a) and 19.5(b) of the Trust Deed to be deleted in their entirety and replaced with the text below:

“(a) The Trust may legally and beneficially acquire and own the issued share capital of any corporations or companies in or outside Hong Kong (provided that, as and to the extent required by the REIT Code, such corporations or companies are incorporated or redomiciled in jurisdictions which, in the opinion of the Manager, have established laws and corporate governance standards which are commensurate with those observed by companies incorporated in Hong Kong) if the Manager considers it necessary or desirable for the Trust to incorporate or acquire an entity whose primary purpose is to hold or own (directly or indirectly through another entity) Real Estate or arrange financing for the Trust (any such entity, a Special Purpose Vehicle) in which event the

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Manager shall instruct the Trustee to, and the Trustee shall accordingly subscribe or acquire by transfer on behalf of the Trust a Special Purpose Vehicle provided that (i) the Special Purpose Vehicle is wholly owned by the Trust, or (ii) the Trust has majority ownership and control of such Special Purpose Vehicle and the Manager confirms that there are sufficient and proper safeguards in the shareholders' agreement or other relevant documents relating to the Special Purpose Vehicle to address the risks arising from the non-wholly owned structure, and such investment is not in conflict with this Deed, the REIT Code and other applicable law.”

“(b) As and to the extent required by the REIT Code, the Manager shall ensure that the Trust shall incorporate or acquire no more than two layers of Special Purpose Vehicles in respect of any Investment unless otherwise permitted or waived by the SFC. In the case of two layers of Special Purpose Vehicles, the top layer Special Purpose Vehicle shall be incorporated solely for the purpose of holding the legal and beneficial interests in one or more Special Purpose Vehicles established for the sole purpose of directly or indirectly holding Real Estate and/or arranging financing for the Trust.”; and

(b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clauses 19.5(a) and 19.5(b) of the Trust Deed.”

10. **“THAT:**

(a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 24.11(d) of the Trust Deed to be deleted in their entirety and replaced with the text below:

“(d) Subject to clause 24.2, the Trustee, or where appointed, the Registrar, shall determine the Distribution Entitlement of each Holder for a Distribution Period, which shall be notified to the Manager and the Trustee. The Manager shall arrange for the Auditor to review and check the calculation of the Distribution Entitlement per Unit in issue at the close of business on the Record Date for the Distribution Period and issue a confirmation letter regarding such review and verification, to the Manager. The Manager will then, as soon as possible, provide a copy of such confirmation to the Trustee. Subject to clarifying any queries which the Manager or the Trustee may have in relation to such calculation, in respect of each Distribution Period, the Manager shall instruct the Trustee and the Trustee shall direct the Registrar to pay to each Holder his Distribution Entitlement on or before the Distribution Date for the Distribution Period.”; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 24.11(d) of the Trust Deed.”

11. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Schedule 4 to the Trust Deed to be amended by inserting the new paragraphs below immediately after paragraph (u) of Schedule 4 to the Trust Deed:

“(v) to the extent permitted by the REIT Code and any applicable law, all other fees, costs and expenses (including costs and expenses incurred in respect of roadshows, press conferences, luncheons, presentations, marketing and promotional charges, and other public relations-related fees, costs or expenses and fees for public relations consultants and Unit/Convertible Instrument issuance-related expenses) in connection with any offering or issue of Units or Convertible Instruments;

(w) to the extent permitted by the REIT Code and any applicable law, all fees, costs and expenses (including costs and expenses incurred in respect of roadshows, press conference, luncheons, presentations, and other public relations-related fees, costs or expenses and fees for public relations consultants and Unit/Convertible Instrument issuance-related expenses) incurred in connection with convening and holding of meetings of Holders or meetings for purposes of investor or analyst briefings, and all fees, costs and expenses incurred in connection with any public relations-related activities in connection with the Trust other than the fees, costs and expenses already referred to above.”; and

- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Schedule 4 to the Trust Deed.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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12. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 20.4 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“No new borrowing or money raising shall be requisitioned by the Manager under clause 20.2 or made by the Manager under clause 20.3 if upon the effecting of such borrowing or raising the amount thereof, together with the aggregated amount of all other raisings or borrowings (excluding net assets attributable to Holders) made by the Trustee for the account of the Trust (directly or indirectly through Special Purposes Vehicles) and still remaining to be repaid, would thereupon in the aggregate exceed 45% (or such other higher or lower percentage as may be permitted by the REIT Code or as may be specifically permitted by the relevant authorities) of the total gross asset value of the Deposited Property as set out in the Trust’s latest published audited accounts immediately prior to such borrowing being effected (as adjusted by (i) the amount of any distribution proposed by the Manager in such audited accounts and any distribution declared by the Manager since the publication of such accounts; and (ii) where appropriate the latest published valuation of the assets of the Trust if such valuation is published after the publication of such accounts).”; and

- (b) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 20.4 of the Trust Deed.”

13. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 9 of the Trust Deed to be amended by inserting the new paragraph below immediately after Clause 9.4 of the Trust Deed:

“9.5 In relation to any right issues, the Manager may, after making due enquiry regarding the applicable law in any applicable jurisdiction other than Hong Kong, in its absolute discretion, elect not to extend an offer of Units under the right issue to those Holders whose addresses are outside Hong Kong if the Manager considers such exclusion to be necessary and expedient on account either of the legal restrictions or requirements of the regulatory bodies or stock exchanges in such jurisdiction(s). In such event, the rights or entitlement to the Units of such Holders will be offered for sale by the Manager as the nominee and authorized agent of each such relevant Holder and at such price as the Manager may determine. Where necessary, the Trustee shall have the discretion to impose such other terms and conditions in connection with such

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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sale. The proceeds of any such sale, less expenses, of HK\$100 or more will be paid to the relevant Holders in Hong Kong dollars pro rata to their respective unitholding as soon as practicable. Individual amounts of less than HK\$100 will not be paid and will be retained by the Trust for its own use and benefit.”;

- (b) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the last sentence of Clause 11.6 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“For the avoidance of doubt, such notice may be given by way of public advertisement in at least one English language newspaper in Hong Kong and one Chinese language newspaper in Hong Kong or by other means or publication method as may be required or permitted by the REIT Code or SFC from time to time.”;

- (c) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the first two sentences of Clause 11.14 of the Trust Deed to be deleted in their entirety and replaced with the text below:

“In the case of the death of any one of joint Holders, the survivor or survivors shall be the only persons recognized by the Trustee and the Manager as having any title to or interest in the Units held by such joint Holders subject to applicable law for the time being in force, provided that where the sole survivor is a Minor (i.e. any individual under the age of 18 years), the Manager or the Trustee shall act only on the requests, applications, or instructions of the surviving Minor after he attains the age of 18 years and shall not be obligated to act on the requests, applications or instructions of the heirs, executors or administrators of the deceased joint Holder and shall not be liable for any claims or demands whatsoever by the heirs, executors or administrators of the deceased joint Holder, the Minor joint Holder or the Minor joint Holder’s legal guardian in omitting to act on any request, application or instruction given by the Minor before he attains such age or by the heirs, executors or administrators of the deceased joint Holder. The executors or administrators of a deceased Holder (not being one of several joint Holders) shall be the only persons recognized by the Trustee and the Manager as having title to the Units of that deceased Holder.”;

- (d) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 23(a) of the Trust Deed to be amended by replacing the words “to the full insurable value thereof” with the text below:

“to such value in accordance with local market practice thereof in the case of Investments which are of a nature or kind capable of being so insured”;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (e) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 28.2 of the Trust Deed to be amended by inserting the following sentence immediately at end of the said Clause 28.2:

“For the purpose of this Deed, in case of any reference to an announcement in relation to matters concerning the Trust, the method of publication of such announcement shall be such method as may be required or permitted by the REIT Code or the SFC from time to time.”;

- (f) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clauses 9, 11.6, 11.14, 23(a) and 28.2 of the Trust Deed.”

14. **“THAT:**

- (a) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for item (c) of the definition of “Authorised Investments” in Clause 1.1 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“(c) shares in the issued share capital of, and loan to, any Special Purpose Vehicle established or to be established at the direction of the Manager and any goodwill and other intangible assets acquired in relation to the acquisition of Special Purpose Vehicles;”;

- (b) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the definition of “Record Date” in Clause 1.1 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“**“Record Date”** means the date or dates in respect of each Distribution Period determined by the Manager for the purpose of determining the Distribution Entitlement of the Holders to the Total Distribution Amount;”;

- (c) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for the definition of “REIT Code” in Clause 1.1 of the Trust Deed to be deleted in its entirety and replaced with the text below:

“**“REIT Code”** means the Code on Real Estate Investment Trusts issued by the SFC, as the same may from time to time be modified, amended, revised or replaced, or supplemented either by published guidelines, policies, practice statements or other guidance issued by the SFC or, in any particular case, by specific written guidance issued by the SFC in response to a specific request by the Manager and the Trustee;”;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (d) pursuant to Clause 36.1 of the Trust Deed, approval be and is hereby given for Clause 1.1 of the Trust Deed to be amended by inserting the following definition of “Trading Day” immediately after the definition of “Total Distributable Income”:

“**Trading Day**” means any day on which the SEHK is open for the business of dealing in securities;” and

- (e) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the above amendments in relation to Clause 1.1 of the Trust Deed.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### ORDINARY RESOLUTION

#### ACQUISITION OF NEW PROPERTY AND ISSUE OF CONSIDERATION UNITS IN CONNECTION THEREWITH

1. **“THAT:** approval be and is hereby given for:

- (a) the acquisition by GZI REIT (through HSBC Institutional Trust Services (Asia) Limited, in its capacity as trustee of GZI REIT (the **“Trustee”**)) the entire issued share capital and the shareholder loans of Metrogold Development Limited which together with 廣州市華強投資有限公司, holds Guangzhou Jieyacheng Properties Co. Ltd., which in turn holds approximately 72.3% (based on Total Floor Area) of Yue Xiu Neo Metropolis Plaza (the **“New Property”**) as more particularly described in the circular of GZI REIT dated 4 February 2008 (the **“Circular”**) and on the terms and conditions set out in the conditional sale and purchase agreement dated 14 January 2008 (**“Agreement”**) and entered into by Guangzhou Investment (China Property) Company Limited (the **“Vendor”**), Guangzhou Investment Company Limited (as the guarantor of the Vendor), the Purchaser (as trustee of GZI REIT) and the Manager, and for payment of all fees and expenses relating to such acquisition; and
- (b) GZI REIT Asset Management Limited, in its capacity as the manager of GZI REIT (the **“Manager”**), to issue 65,972,687 new units in GZI REIT (the **“Consideration Units”**) to the Vendor or its nominated person at HK\$3.08 per Unit as partial payment of the consideration for the said acquisition on the terms and conditions set out in the Agreement,

**AND THAT** the Manager, any director of the Manager and the Trustee be and are hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or, as the case may be, the Trustee may consider expedient or necessary or in the interests of GZI REIT to give effect to each of the Acquisition and the issue of the Consideration Units in connection with the Acquisition.”

### ORDINARY RESOLUTION

#### INCREASE IN ANNUAL CAPS AND EXTENSION OF WAIVER PERIOD FOR CERTAIN CONTINUING CONNECTED PARTY TRANSACTIONS

2. **“THAT:** approval be and is hereby given for:

- (a) increase of the annual caps for leasing transactions and the Tenancy Services Agreements related transactions to the following caps; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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Leasing transactions

For the year ending 31 December 2008	For the year ending 31 December 2009	For the year ending 31 December 2010
HK\$4,061,000	HK\$4,189,000	HK\$4,777,000

*The proposed caps are rounded up to the nearest thousand for easy reference.*

Tenancy Services Agreements

For the year ending 31 December 2008	For the year ending 31 December 2009	For the year ending 31 December 2010
HK\$18,149,000	HK\$19,964,000	HK\$21,960,000

*The proposed caps are rounded up to the nearest thousand for easy reference.*

- (b) the appointment of Guangzhou Yicheng Property Management Limited (“**Property Manager**”) to manage the common areas in the New Property which relevant property management agreement(s) were entered into in the ordinary and usual course of business, on normal commercial terms and based on market pricing. As the tenants in the New Property pay the property management fees to the Property Manager, no caps are required in respect of such property management fees;
- (c) extension of the Initial Waiver Period for the connected party transactions in relation to the leasing transactions, property management arrangements for Existing Properties and Tenancy Services Agreements related transactions for a period up to and including 31 December 2010;
- (d) the Manager, any director of the Manager and the Trustee each be and is hereby severally authorised to complete and do or cause to be done all such acts and things (including executing all such documents as may be required) as the Manager, such director of the Manager or the Trustee, as the case may be, may consider expedient or necessary or in the interests of GZI REIT to give effect to the matters resolved upon in sub-paragraphs (a), (b) and (c) of this resolution.”

By Order of the Board  
**GZI REIT Asset Management Limited**  
(as manager of GZI Real Estate Investment Trust)  
**Liang Ningguang**  
*Chairman*

Hong Kong, 4 February 2008

*Registered Office:*  
24/F., Yue Xiu Building,  
160 Lockhart Road  
Wanchai  
Hong Kong

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### Notes:

1. A Unitholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. The person appointed to act as proxy need not be a Unitholder.
2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of the Unit Registrar of GZI REIT, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
3. Where there are joint registered Unitholders of a Unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such Unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the Register of Unitholders of GZI REIT in respect of such Unit shall alone be entitled to vote in respect thereof.
4. The Register of Unitholders will be closed from Wednesday, 20 February 2008 to Tuesday, 26 February 2008, both days inclusive, during which period no transfers of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the meeting convened by the above notice, all Unit certificates accompanied by the duly completed transfers must be lodged with the Unit Registrar, Tricor Investor Services Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 19 February 2008.

As at the date of this notice, the Board comprises:

*Executive Directors:*

Messrs. Liang Ningguang and Liu Yongjie

*Non-executive Director:*

Mr. Liang Youpan

*Independent Non-executive Directors:*

Messrs. Chan Chi On, Derek, Lee Kwan Hung, Eddie and Chan Chi Fai, Brian.