



GZI Real Estate Investment Trust

越秀房地產投資信託基金

(Stock Code: 405)



2006

Interim Report



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Performance Summary

| | 11-day Period Ended 31 December, 2005 | Six-month Period Ended 30 June, 2006 |
|---|---|--|
| Distributions per unit (Notes a and b) | HK\$0.0405 | HK\$0.1033 |
| Earnings per unit | HK\$0.0405 | HK\$0.1033 |
| Net assets attributable to Unitholders per unit | HK\$3.016 | HK\$3.144 |
| Net tangible assets attributable to Unitholders per unit | HK\$2.863 | HK\$2.991 |
| Offer price per unit upon listing | HK\$3.075 | HK\$3.075 |
| Closing price per unit | HK\$3.450 | HK\$3.100 |
| Yield per unit based on offer price | 1.32% | 3.36% |
| Yield per unit based on closing price | 1.18% | 3.33% |
| Number of units in issue | 1,000,000,000 units | 1,000,000,000 units |
| Highest premium of traded price to net assets attributable to Unitholders per unit | HK\$0.759 | HK\$0.556 |
| Highest discount of traded price to net assets attributable to Unitholders per unit | N/A | HK\$0.294 |
| Total assets | HK\$4,466 million | HK\$4,563 million |
| Total liabilities, excluding net assets attributable to Unitholders | HK\$1,450 million | HK\$1,418 million |
| Net assets attributable to Unitholders | HK\$3,016 million | HK\$3,144 million |
| Net tangible assets (net assets attributable to Unitholders minus goodwill) | HK\$2,863 million | HK\$2,991 million |
| Total borrowings as a percentage of gross assets (Note c) | 29% | 28% |
| Gross liabilities as a percentage of gross assets (Note d) | 33% | 31% |
| Net property income | HK\$5.682 million | HK\$161.176 million |

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

Note b: Total Distribution per unit for the period from 21 December, 2005 (the Listing Day) to 30 June, 2006 is HK\$0.1438.

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

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

GZI REIT Profile

GZI Real Estate Investment Trust (“GZI REIT”) is a Hong Kong real estate investment trust constituted by a trust deed entered into on 7 December, 2005 (“the Trust Deed”) between HSBC Institutional Trust Services (Asia) Limited as the trustee (“the Trustee”) and GZI REIT Asset Management Limited as the manager (“the Manager”). GZI REIT was listed on The Stock Exchange of Hong Kong Limited on 21 December, 2005 (“the Listing Date”).

GZI REIT’s property portfolio (“the Properties”) consists of four commercial properties located in Guangzhou and GZI REIT is the first real estate investment trust which invests in Guangzhou, Guangdong Province, the People’s Republic of China (“the PRC”).

Total Distributable Income

The Total Distributable Income (as defined in the Trust Deed) of GZI REIT to the unitholders of GZI REIT (“the Unitholders”) for the six-month period from 1 January, 2006 to 30 June, 2006 (“the 2006 Interim Period”) amounted to approximately HK\$103,375,000, representing distributable income per unit of HK\$0.1033. The Total Distributable Income (as defined in the Trust Deed) of GZI REIT for the 11-day period from the Listing Date to 31 December, 2005 (“the Relevant Period 2005”) amounted to approximately HK\$40,543,000, representing distributable income per unit of HK\$0.0405.

The Total Distributable Income (as defined in the Trust Deed) for the period from the Listing Date to 30 June, 2006 amounted to HK\$143,918,000, representing an aggregate distributable income per unit of HK\$0.1438.

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

Distribution

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

To provide Unitholders with maximum returns, the Manager resolved to distribute to Unitholders 100% of GZI REIT’s Total Distributable Income (as defined in the Trust Deed) for the Relevant Period 2005.

Pursuant to the terms of the Trust Deed, distribution in respect of the Relevant Period 2005 would be paid at the same time as the distribution in respect of the 2006 Interim Period.

The Manager has resolved to declare an interim distribution to Unitholders for the 2006 Interim Period of HK\$0.1033 per unit and a final distribution for the Relevant Period 2005 of HK\$0.0405 per unit, amounting to a total first distribution of HK\$0.1438 per unit. This represents a 100% distribution of GZI REIT’s Total Distributable Income (as defined in the Trust Deed) for the 2006 Interim Period and the Relevant Period 2005.

The first distribution amounting to approximately HK\$143,918,000, in aggregate, will be effected on 8 November, 2006 and be payable to the Unitholders whose names appear on the register of Unitholders on 7 November, 2006.

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

The Manager has calculated the Total Distributable Income (as defined in the Trust Deed) based on GZI REIT’s consolidated profit after tax before transactions with the Unitholders and considered that no adjustments were required to eliminate the effects of certain non-cash items.

Trust Review

BUSINESS REVIEW

GZI REIT's property portfolio comprises White Horse Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units (each as defined in the initial public offering circular of GZI REIT dated 12 December, 2005). All business indicators performed well for the 2006 Interim Period.

A Steady Increase in Occupancy Rate

Through optimizing floor plan in the 2006 Interim Period, gross rentable area increased by approximately 1,121.7 square metres. Gross rentable area increased from 159,023.1 square metres as at 31 December, 2005 to 160,144.8 square metres. As of 30 June, 2006, the gross leased area of the Properties reached 157,840.4 square metres. Despite the increase in gross rentable area, the overall occupancy rate of the Properties further increased from 95.5% as at 31 December, 2005 to 98.6% as at 30 June, 2006, representing an increase of 3.1%. Both White Horse Units and Victory Plaza Units continue to achieve an occupancy rate of almost 100%. During the 2006 Interim Period, the occupancy rate of Fortune Plaza Units grew from 90.2% to 98.1% whilst the occupancy rate of City Development Plaza Units rose from 92.6% to 97.0%.

The following table shows the occupancy rates of the Properties as at 30 June, 2006:

| Name of Property | Occupancy Rate as at 30 June, 2006 | Occupancy Rate as at 31 December, 2005 | % of increase/ (decrease) |
|------------------------------|--|---|---------------------------------|
| White Horse Units | 99.7% | 100% | (0.3%) |
| Fortune Plaza Units | 98.1% | 90.2% | 7.9% |
| City Development Plaza Units | 97.0% | 92.6% | 4.4% |
| Victory Plaza Units | 99.6% | 100% | (0.4%) |
| The Properties | 98.6% | 95.5% | 3.1% |

Expected Target Achieved for Rental Income

Given a steady increase in the overall occupancy rate, the Properties recorded an aggregate rental income of approximately HK\$180,435,000 and other income of approximately HK\$2,306,000, representing gross operating income of approximately HK\$182,741,000 during the 2006 Interim Period. As at 30 June, 2006, GZI REIT achieved 50.2% of the budgeted operating income for the financial year 2006 as disclosed in the section headed "Profit Forecast" ("the Profit Forecast") in the initial public offering circular of GZI REIT dated 12 December, 2005 ("the Offering Circular").

During the 2006 Interim Period, White Horse Units accounted for 66.2% of the total rental income, whilst each of the remaining three properties accounted for an average of 11.3% of the total rental income.

During the 2006 Interim Period, no bad debts were recorded.

Trust Review

The following table shows the rental income generated from each of the Properties during the 2006 Interim Period:

| Name of Property | Rental Income (HK\$'000) | % of Total Rental Income |
|------------------------------|-------------------------------------|-------------------------------------|
| White Horse Units | 119,450 | 66.2% |
| Fortune Plaza Units | 21,803 | 12.1% |
| City Development Plaza Units | 20,046 | 11.1% |
| Victory Plaza Units | 19,136 | 10.6% |
| The Properties | 180,435 | 100% |

Ongoing Improvement of Tenant Mix

In order to increase the competitiveness of the Properties, the Manager placed much emphasis on the tenant mix and the strength of our tenants by adjusting tenant mix where and when appropriate. The Manager adhered to the features and positioning requirements of each of the Properties. Focusing on the expiring leases and the existing vacant units, the Manager has attracted quality tenants whose business fits in with the character of each of the Properties. On the other hand, the Manager continued to improve existing tenant mix and unit floor plan and encouraged extension of leases by quality tenants on a preferential basis so as to actively retain quality tenants. During the 2006 Interim Period, not only had our tenant mix been further improved, encouraging progress was also achieved in renewal of leases without any loss of major tenants.

Success in Asset Enhancement

As stated in the Offering Circular, the Manager is determined to focus on improving the distribution return to Unitholders through asset enhancement. During the period of four months or so after the listing of GZI REIT, the Manager completed the renovation and leasing of Levels 8 and 9 of White Horse Units in April 2006 and successfully converted the area available for wholesale and retail purposes. All rentable area was leased out at the same time through public tender. The average rental achieved represented a premium of approximately 20% over the original estimated rental rates. Accordingly, the target of asset enhancement was achieved. The newly renovated Levels 8 and 9 were positioned as the "Marketing Region of Quality Brands of White Horse Building" and the tenants opened for business at the newly leased premises on 18 May, 2006.

Improving Safety Management System

In order to ensure the safety of the Properties, the Manager has taken measures to improve the safety management system. These include improvements to the maintenance of facility and repair systems, ensuring the normal operation of the fire prevention system and conducting regular fire safety inspections and fire emergency practices. As a precautionary measure, any potential safety risks identified must be eliminated within a specified time frame. To ensure performance of the fire prevention facilities, including mechanical and electrical aspects, the Manager has made special arrangements for relevant professionals from Jones Lang LaSalle to conduct a comprehensive review and assessment of the relevant facilities of the Properties. In addition, to ensure the safety of the Properties, the Manager conducts irregular fire safety inspections from time to time to supervise the implementation of fire safety management works.

Operating Efficiency and Cost Control

With a relatively streamlined management structure and an improved operating model, the Manager managed to raise the operating efficiency while maintaining the costs. The Manager will continue to raise the operating efficiency of GZI REIT with a view to provide increasing returns on investments to Unitholders.

Trust Review

Future Prospects

The Manager will continue to identify and attract suitable quality tenants to improve customer flow which would be beneficial to existing tenants. These include an improvement in tenant mix and an introduction of high quality brands, thereby enhancing the reputation of White Horse Units and Victory Plaza Units in the market. In addition, in respect of the office section of Fortune Plaza Units and City Development Plaza Units, the Manager will focus on maintaining good relationships with our tenants and giving timely responses to customers' needs in preparation for future renewal of leases.

In addition to implementing its planned strategy for asset enhancement, the Manager will adopt a positive but prudent approach in its asset acquisition plans in order to achieve sustainable profitability. Future acquisitions may include, but will not be limited to, acquisition of applicable existing or newly completed projects from Guangzhou Investment Company Limited ("GZI") through the exercise of the right of first refusal.

FINANCIAL REVIEW

Distribution per unit

Distribution to Unitholders for the 2006 Interim Period of HK\$0.1033 per unit represents a yield of approximately 3.33% per unit based on the closing price of HK\$3.10 per unit as at 30 June, 2006. This represents an annualized distribution yield of 6.67%.

Distribution to Unitholders for the Relevant Period 2005 of HK\$0.0405 per unit represents a yield of approximately 1.31% based on the closing price of HK\$3.10 per unit as at 30 June, 2006.

Accordingly, total distribution per unit in relation to the period from the Listing Date to 30 June, 2006 amounts to HK\$0.1438, representing a total yield of 4.64% based on the closing price of HK\$3.10 per unit as at 30 June, 2006.

Using the initial public offer ("the IPO") price of HK\$3.075 per unit, the total distribution per unit represents a yield of 4.68%.

Unit Activity

Since the listing of GZI REIT on 21 December, 2005, a total of 1,000,000,000 units were issued. The closing price as at 30 June, 2006 of HK\$3.10 per unit represents a slight increase compared to the IPO price of HK\$3.075 per unit.

GZI REIT's unit price reached a high of HK\$3.70 and a low of HK\$2.85 during the 2006 Interim Period. The volume transacted during the 2006 Interim Period was 974,058,030 units, equivalent to an average daily trading volume of 8,050,066 units.

Asset Value

The net assets attributable to the Unitholders per unit as at 30 June, 2006 was approximately HK\$3.144, which represents an increase of 4.2% as compared to net assets attributable to Unitholders per unit of approximately HK\$3.016 as at 31 December, 2005. The total net tangible assets attributable to Unitholders per unit as at 30 June, 2006 was approximately HK\$2.991, which represents an increase in value per unit of 4.5% as compared to the net tangible assets attributable to Unitholders per unit of approximately HK\$2.863 as at 31 December, 2005.

The major reasons for the increases referred to above include the increase in profit after tax before transactions with Unitholders of approximately HK\$103,375,000 during the 2006 Interim Period.

Trust Review

Financial Results

Both rental income and net property income were slightly higher than the forecasted figures disclosed in the Offering Circular. The following is a summary of GZI REIT's financial results during the 2006 Interim Period:

| | Actual HK\$'000 | Profit Forecast HK\$'000 (Note 1) | % of Increase/ (decrease) |
|---|---------------------------|--|--|
| Gross income | <u>182,741</u> | <u>182,019</u> | 0.4% |
| Leasing agents' fee | (6,097) | (6,063) | 0.6% |
| Property related taxes | (14,137) | (14,339) | (1.4)% |
| Other property expenses (Note 2) | <u>(1,331)</u> | <u>(3,522)</u> | (62.2)% |
| Total property operating expenses | <u>(21,565)</u> | <u>(23,924)</u> | (9.9)% |
| Net property income | <u>161,176</u> | <u>158,095</u> | 1.9% |
| Withholding tax | (17,477) | (17,352) | 0.7% |
| Manager's fees | (11,445) | (10,967) | 4.4% |
| Trustee's fees | (664) | (622) | 6.8% |
| Other trust expenses (Note 3) | <u>(5,640)</u> | <u>(3,953)</u> | 42.7% |
| Total non-property expenses | <u>(35,226)</u> | <u>(32,895)</u> | 7.1% |
| Profit before finance costs, interest income and tax | <u>125,950</u> | <u>125,201</u> | 0.6% |
| Interest income | 2,257 | 1,371 | 64.6% |
| Finance costs - excluding amounts attributable to Unitholders | <u>(24,832)</u> | <u>(26,069)</u> | (4.7)% |
| Profit after tax before transactions with Unitholders | <u><u>103,375</u></u> | <u><u>100,503</u></u> | 2.9% |

Note 1 Based on the Profit Forecast together with the accompanying assumptions as disclosed in the Offering Circular and taking into account 50% of the forecasted income and expenses as attributable to the interim period of six months.

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

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

Trust Review

Profit after tax before transactions with Unitholders amounted to approximately HK\$103,375,000, which represents a 2.9% increase as compared with 50% of the total net profit after tax estimated in the Profit Forecast as disclosed in the Offering Circular.

Gross revenue and net property income were approximately HK\$182,741,000 and approximately HK\$161,176,000 respectively, which exceeded the projections in the pro-rated Profit Forecast as disclosed in the Offering Circular by 0.4% and 2% respectively.

Property operating expenses reduced by 62% as compared to forecasted expenses as indicated in the pro-rated Profit Forecast as disclosed in the Offering Circular.

Other trust expenses increased by approximately HK\$1,687,000 as compared with the forecasted expenses as indicated in the pro-rated Profit Forecast as disclosed in the Offering Circular. This is mainly attributable to the increase in printing charges and unit registrar's fees as a result of an underestimation of number of investors and the increase in professional fees for services rendered by legal advisers and company secretaries.

LIST OF REAL ESTATE HELD BY GZI REIT

Information on The Properties is summarized as follows:

| Name of Property | Gross Rentable area as at 30 June, 2006 square metres | Valuation as at 31 December, 2005 HK\$'000 |
|------------------------------|--|---|
| White Horse Units | 50,128.9 | 2,574,000 |
| Fortune Plaza Units | 40,356.2 | 554,800 |
| City Development Plaza Units | 42,397.4 | 392,000 |
| Victory Plaza Units | 27,262.3 | 533,000 |
| The Properties | 160,144.8 | 4,053,800 |

CAPITAL STRUCTURE

The capital management policy of GZI REIT is to achieve optimal debt profile. GZI REIT, through its special purpose vehicles, entered into a facility agreement with a syndicate of banks for a US\$165 million three-year term loan facility. Total borrowings (excluding debt-related expenses) as a percentage of value of gross assets is 28% whilst total liabilities (excluding debt-related expenses) as a percentage of value of gross assets is 31%. The bank borrowings are secured and the security package includes, among others, a registered mortgage over each of the Properties, assignment of rental income and all other proceeds arising from each of the Properties and of all tenancy agreements relating to each of the Properties and a legal mortgage over the shares of the BVI Companies as defined in the Offering Circular.

REVIEW OF FINANCIAL RESULTS

The results of GZI REIT for the 2006 Interim Period have been reviewed by the Disclosures Committee and Audit Committee of the Manager.

NEW UNITS ISSUED

There were no new units issued during the 2006 Interim Period.

Trust Review

REPURCHASE, SALE OR REDEMPTION OF UNITS

Pursuant to the Trust Deed, the Manager shall not repurchase any units on behalf of GZI REIT until permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission (“SFC”) from time to time.

During the 2006 Interim Period, there was no re-purchase, sale or redemption of units of GZI REIT by GZI REIT or any of its subsidiaries.

SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

GZI REIT did not enter into any real estate sale and purchase during the 2006 Interim Period.

EMPLOYEES

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

CORPORATE GOVERNANCE

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

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

During the 2006 Interim Period, the Manager has complied with the provisions of the Compliance Manual for its management of GZI REIT.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from Wednesday, 1 November, 2006 to Tuesday, 7 November, 2006, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with GZI REIT’s unit registrar, Tricor Investor Services Limited, of 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 31 October, 2006.

By Order of the Board
LIANG NINGGUANG
Chairman

Hong Kong, 24 August, 2006

Connected Party Transactions

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

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

- significant holders (as defined in Rule 8.1 of the REIT Code);
- the Trustee and companies within the same group as well as associated companies (as defined in Rule 2.2 of the REIT Code) of the Trustee, and the directors, senior executives and officers of the Trustee and their respective associates (as defined under the Securities and Futures Ordinance (“SFO”). As a result, GZI REIT’s connected persons include HSBC Holdings plc and other members of its group since the Trustee is an indirect wholly-owned subsidiary of HSBC Holdings plc;
- the Manager as well as controlling entities (as defined under the SFO), holding companies (as defined under the SFO), subsidiaries (as defined under the SFO) and associated companies (as defined in Rule 2.2 of the REIT Code) of the Manager; and
- the Directors, senior executives and officers of the Manager and their respective associates. The associates of the Directors include (amongst others) other companies of which they are directors.

The Manager and Significant Holder Group

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

Leasing Transactions

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

| Property | Tenant | Location of unit | GFA (sq.m.) | Gross Rentable Area (sq.m.) | Lease commencement date | Monthly rent (Rmb) | Monthly rent per sq.m. (Rmb) | Rent free period (days) | Term (years) |
|------------------------------|--|------------------|-------------|-----------------------------|-------------------------|--------------------|------------------------------|-------------------------|--------------|
| City Development Plaza Units | Yicheng ¹ | 1st storey | 97.0 | 97.0 | 1 May, 2006 | 485 | 5 | 0 | 1 |
| | Xingye ^{2,5} | 1st storey | 881.2 | 881.2 | 1 Jan, 2006 | 118,955 | 135 | 0 | 3 |
| | Xingye ^{2,5} | 2nd storey | 639.92 | 639.92 | 1 Jan, 2006 | 45,333 | 70 | 0 | 3 |
| | GZI ³ | 16th storey | 1,060.5 | 1,060.5 | 1 Jan, 2005 | 95,444 | 90 | 0 | 3 |
| | Guangzhou office of Yue Xiu ⁴ | 16th storey | 46.1 | 46.1 | 1 Jan, 2005 | 4,150 | 90 | 0 | 3 |

1. an associate of the Manager
2. an associate of the Manager
3. Being a significant holder
4. Being a significant holder
5. These leases are subject to certain right to early termination exercisable by Full Estates if higher rates for the leased units were offered by prospective tenants and such offer not matched by Xingye.

During the 2006 Interim Period, the aggregate amount of rent payable to GZI REIT by virtue of the above leases amounted to approximately HK\$1,525,000.

Connected Party Transactions

Property Management Agreements

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

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

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

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

Connected Party Transactions

Tenancy Services Agreements

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

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

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

During the 2006 Interim Period, the aggregate amount of fees payable by GZI REIT to Yicheng and White Horse Property Management Company under these tenancy services agreements was approximately HK\$6,097,000.

Trade Mark Licence Agreements

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

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

Waiver from Strict Compliance

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

Connected Party Transactions

Renovation of Levels 8 and 9 of White Horse Units

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

GCCD Decoration, in its capacity as a main contractor, sub-contracted part of the renovation works to two independent third party sub-contractors pursuant to two separate sub-contracts both dated 26 January, 2006. By another two separate agreements entered into between GCCD Decoration, Partat and each of the two sub-contractors both dated 28 January, 2006 (as supplemented and amended by two separate confirmations entered into between the same parties both dated 24 August, 2006), GCCD Decoration’s rights and obligations (including, payment obligations) under the sub-contracts were assigned to Partat, subject to the terms and conditions set out in the respective confirmations. Accordingly, the amount payable by Partat to GCCD Decoration pursuant to the terms of the renovation contract dated 26 January, 2006 was reduced to Renminbi 414,148.08 (i.e., approximately HK\$398,219.00), representing the difference between the total amount of all renovation works (i.e., Renminbi 5,176,851.05 (i.e., approximately HK\$4,977,741.00)) and the sums directly payable by Partat to the two sub-contractors (i.e. Renminbi 4,762,702.97 (i.e., approximately HK\$4,579,522.00) in aggregate).

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

HSBC Group

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

Connected Party Transactions

Leasing Transactions

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

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

During the 2006 Interim Period, the aggregate amount of rent payable to GZI REIT by virtue of the above leases amounted to approximately HK\$3,916,000.

Corporate Finance Transactions

The SPVs (as borrowers) and GZI REIT Holding 2005 Limited (“REIT Holdco”) (as guarantor) entered into a facility agreement with certain lending banks on 7 December, 2005 for a three year floating rate term loan facility of US\$165 million to be drawn on the Listing Date. To secure the SPVs’ obligations under the loan on a pari passu and pro rata basis, a security package, including registered mortgage over each Property and the SPV shares, assignment of rental income and all other proceeds arising from each of the Property and of all tenancy agreements relating to the Properties, has been granted in favour of a security trustee to hold on behalf of the lending banks. HSBC was one of the lending banks and acted as the agent and security agent of the lending banks. On 21 December, 2005, the facility was drawn by GZI REIT in full, as to US\$63,900,000 was advanced by HSBC and US\$63,900,000 remained outstanding as at 30, June 2006.

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

The SPVs’ obligations under the swap agreements are secured, pari passu and pro rata, on the security package described above. They have also granted guarantees in favour of the lending banks (as swap providers) to secure their obligations under the swap agreement. During the 2006 Interim Period, interest under the facility agreement in the amount of approximately HK\$8,026,000 were payable by GZI REIT to HSBC during the 2006 Interim Period.

Ordinary Banking Services

REIT Holdco, Partat, Keen Ocean, Full Estates and Moon King has opened interest bearing accounts with HSBC for deposits within the 2006 Interim Period at arm’s length and on commercial terms.

Waiver from Strict Compliance

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

Connected Party Transactions

Confirmation by the Audit Committee and the INEDs

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

- (a) in the ordinary and usual course of business of GZI REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to GZI REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

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

Both the Manager and the Trustee confirm that there is no corporate finance transaction and other connected transaction (save and except for those disclosed hereinabove) with the HSBC Group during the 2006 Interim Period.

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

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

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

Interests and Short Positions in the Units:

| Name of Director | Nature of Interest | As at 31 December, 2005 | | As at 30 June, 2006 | | % Change in Holdings |
|---------------------------------|--------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|----------------------|
| | | Beneficial interests in Units | Approximate % of interest | Beneficial interests in Units | Approximate % of interest | |
| Mr Liang Ningguang ¹ | — | Nil | — | Nil | — | — |
| Mr Liu Yongjie ² | — | Nil | — | Nil | — | — |
| Mr Liang Youpan | — | Nil | — | Nil | — | — |
| Mr Chan Chi On, Derek | — | Nil | — | Nil | — | — |
| Mr Lee Kwan Hung, Eddie | — | Nil | — | Nil | — | — |
| Mr Chan Chi Fai, Brian | — | Nil | — | Nil | — | — |

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

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

Connected Party Transactions

HOLDINGS OF SIGNIFICANT HOLDERS

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

1. Long position in the Units:

| Name of Substantial Unitholder | Nature of Interest | As at 1 January, 2006 | | As at 30 June, 2006 | | % Change of interest |
|--|--------------------|-----------------------|---------------------------|---------------------|---------------------------|----------------------|
| | | Interests in Units | Approximate % of interest | Interests in Units | Approximate % of interest | |
| Yue Xiu ¹ | Beneficial | 27,320 | 0% | 27,320 | 0% | — |
| | Deemed | 408,776,760 | 40.88% | 321,326,760 | 32.13% | -8.74% |
| | Total | 408,804,080 | 40.88% | 321,354,080 | 32.14% | -8.74% |
| GZI ² | Beneficial | — | — | — | — | — |
| | Deemed | 400,730,495 | 40.07% | 313,280,495 | 31.32% | -8.75% |
| | Total | 400,730,495 | 40.07% | 313,280,495 | 31.32% | -8.75% |
| Dragon Yield Holdings Limited (“Dragon Yield”) | Beneficial | 400,730,495 | 40.07% | 313,280,495 | 31.32% | -8.75% |
| | Deemed | — | — | — | — | — |
| | Total | 400,730,495 | 40.07% | 313,280,495 | 31.32% | -8.75% |

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

Connected Party Transactions

| Name of Controlled Corporation | Name of Controlling Shareholder | % Control | Direct interest (Y/N) | Number of Shares | |
|---------------------------------------|--|------------------|------------------------------|-------------------------|-----------------------|
| | | | | Long Position | Short Position |
| Excellence Enterprises Co., Ltd. | Yue Xiu | 100.0 | N | 321,215,530 | Nil |
| Bosworth International Limited | Excellence Enterprises Co., Ltd. | 100.0 | N | 313,280,495 | Nil |
| Bosworth International Limited | Excellence Enterprises Co., Ltd. | 100.0 | Y | 5,698,282 | — |
| Guangzhou Investment Company Limited | Bosworth International Limited | 34.98 | N | 313,280,495 | Nil |
| Dragon Yield | GZI | 100.0 | Y | 313,280,495 | Nil |
| Sun Peak Enterprises Ltd. | Excellence Enterprises Co., Ltd. | 100.0 | N | 1,414,207 | — |
| Novena Pacific Limited | Sun Peak Enterprises Ltd. | 100.0 | Y | 1,414,207 | — |
| Shine Wah Worldwide Limited | Excellence Enterprises Co., Ltd. | 100.0 | N | 395,122 | — |
| Morrison Pacific Limited | Shine Wah Worldwide Limited | 100.0 | Y | 395,122 | — |
| Perfect Goal Development Co., Ltd. | Excellence Enterprises Co., Ltd. | 100.0 | N | 339,342 | — |
| Greenwood Pacific Limited | Perfect Goal Development | 100.0 | Y | 339,342 | — |
| Seaport Development Limited | Excellence Enterprises Co., Ltd. | 100.0 | N | 88,082 | — |
| Goldstock International Limited | Seaport Development Limited | 100.0 | Y | 88,082 | — |
| Yue Xiu Finance Company Limited | Yue Xiu | 100.0 | Y | 111,230 | — |

2. The deemed interest in 313,280,495 Units were held through Dragon Yield, a 100% owned subsidiary.

Connected Party Transactions

2. Short position* in the Units

| Name of Substantial Unitholder | Nature of Interest | As at 1 January, 2006 | | As at 30 June, 2006 | | % Change of interest |
|--------------------------------|--------------------|-----------------------|---------------------------|---------------------|---------------------------|----------------------|
| | | Number of Units | Approximate % of interest | Number of Units | Approximate % of interest | |
| Yue Xiu ¹ | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| GZI ¹ | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| Dragon Yield | Beneficial | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Deemed | — | — | — | — | — |

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

* These short positions were held in relation to the over-allocation option granted to the underwriters of the IPO which was exercised in full on 4 January, 2006.

HOLDINGS OF OTHER CONNECTED PERSONS

Senior Executives of the Manager

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

| Name of Senior Executive | Nature of interest | As at 1 January, 2006 | | As at 30 June, 2006 | | % Change of interest |
|--------------------------|--------------------|-----------------------|---------------------------|---------------------|---------------------------|----------------------|
| | | Interests in Units | Approximate % of interest | Interests in Units | Approximate % of interest | |
| Ms. Ko Yung Lai, Jackie | Personal | 8,125 | 0% | 8,125 | 0% | — |
| Mr. Cheng Jiuzhou | Personal | 480 | 0% | 480 | 0% | — |
| Mr. Ip Wing Wah | Personal | 1,900 | 0% | 1,900 | 0% | — |

Trustee

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

Connected Party Transactions

Short Position and Long Position in Units*

| Name of HSBC entity | Nature of interest | As at 31 December, 2005 | | As at 30 June, 2006 | | % change of interest |
|---|--------------------|-------------------------|---------------------------|---------------------|---------------------------|----------------------|
| | | Interest in Units | Approximate % of interest | Interest in Units | Approximate % of interest | |
| HSBC Holdings Plc** | Beneficial | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Deemed | — | — | — | — | — |
| | Total | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| HSBC Finance (Netherlands)** | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Total | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| HSBC Holdings BV** | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Total | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| HSBC Asia Holdings (UK)** | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Total | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| HSBC Asia Holdings BV** | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Total | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| The Hongkong and Shanghai Banking Corporation Limited** | Beneficial | — | — | — | — | — |
| | Deemed | 87,450,000 | 8.75% | Nil | Nil | -8.75% |
| | Total | 87,450,000 | 8.75% | Nil | Nil | -8.75% |

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

The Hongkong and Shanghai Banking Corporation Limited was one of the Joint Global Coordinators. The over-allocation option was exercised in full on 4 January, 2006.

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

Save as disclosed above, the Manager is not aware of any connected persons (as defined in Rule 8.1 of the REIT Code) of GZI REIT, including the Trustee and Colliers International (Hong Kong) Ltd. holding any Units as at 30 June, 2006.

Connected Party Transactions

Unit Options

At no time during the 2006 Interim Period was GZI REIT or any of its controlled entities a party to any arrangements which enable the Directors of the Manager (including, their spouses and children under 18 years of age) to acquire benefits by means of acquisition of Units or any equity derivatives in GZI REIT or any other body corporate.

Manager's Fees

During the 2006 Interim Period, the aggregate amount of fees payable by GZI REIT to the Manager under the Trust Deed was approximately HK\$11,445,000.

Trustee's Fees

During the 2006 Interim Period, the aggregate amount of fees payable by GZI REIT to the Trustee under the Trust Deed was approximately HK\$664,000.

Principal Valuer's Fees

During the 2006 Interim Period, the aggregate amount of fees payable by GZI REIT to the Valuer for the preparation of a valuation report of the Properties was HK\$40,000.

Report of the Auditors



羅兵咸永道會計師事務所

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

INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF GZI REIT ASSET MANAGEMENT LIMITED (the "MANAGER")

INTRODUCTION

We have been instructed by the Manager to review the interim financial report of GZI Real Estate Investment Trust ("GZI REIT") set out on pages 22 to 41.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE MANAGER AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report of GZI REIT to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report of GZI REIT is the responsibility of, and has been approved by, the directors of the Manager.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report of GZI REIT and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of the Manager and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report of GZI REIT.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report of GZI REIT for the six months ended 30 June, 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August, 2006

Condensed Consolidated Interim Balance Sheet

As at 30 June, 2006

| | | As at | |
|---|------|---|---|
| | Note | 30 June, 2006 Unaudited HK\$'000 | 31 December, 2005 Audited HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 11,664 | 3,395 |
| Investment properties | 5 | 4,053,800 | 4,053,800 |
| Deferred assets | 6 | 11,168 | 5,637 |
| Goodwill | 7 | 152,917 | 152,917 |
| Derivative financial instruments | 12 | 2,009 | — |
| | | <u>4,231,558</u> | <u>4,215,749</u> |
| Current assets | | | |
| Rental receivables | 8 | 193 | 320 |
| Prepayments, deposits and other receivables | 8 | 5,243 | 4,478 |
| Cash and cash equivalents | 9 | 325,544 | 235,917 |
| Due from related companies | 21 | — | 9,810 |
| | | <u>330,980</u> | <u>250,525</u> |
| Total assets | | <u>4,562,538</u> | <u>4,466,274</u> |
| Current liabilities | | | |
| Rental deposits, current portion | 11 | 7,479 | 6,138 |
| Receipts in advance | 11 | 17,582 | 21,842 |
| Accruals and other payables | 11 | 41,057 | 10,580 |
| Due to related companies | 21 | 44,949 | 81,658 |
| | | <u>111,067</u> | <u>120,218</u> |

Condensed Consolidated Interim Balance Sheet

As at 30 June, 2006

| | | As at | |
|--|------|---|---|
| | | 30 June, 2006 Unaudited HK\$'000 | 31 December, 2005 Audited HK\$'000 |
| | Note | | |
| Non-current liabilities, excluding net assets attributable to Unitholders | | | |
| Rental deposits, non-current portion | 11 | 59,743 | 63,695 |
| Bank borrowings, secured | 13 | 1,247,503 | 1,255,216 |
| Derivative financial instruments | 12 | — | 11,231 |
| | | <u>1,307,246</u> | <u>1,330,142</u> |
| Total liabilities, excluding net assets attributable to Unitholders | | | |
| Net assets attributable to Unitholders | 14 | 1,418,313 <u>3,144,225</u> | 1,450,360 <u>3,015,914</u> |
| Total liabilities | | <u>4,562,538</u> | <u>4,466,274</u> |
| Net assets | | | |
| Equity | | | |
| Hedging reserve | 10 | 13,655 | (11,281) |
| Retained earnings/(deficit) | | <u>(13,655)</u> | <u>11,281</u> |
| Total equity | | <u>—</u> | <u>—</u> |
| Units in issue ('000) | | <u>1,000,000</u> | <u>1,000,000</u> |
| Net assets attributable to Unitholders per unit | | <u>HK\$3.144</u> | <u>HK\$3.016</u> |

The above condensed consolidated interim balance sheet should be read with the accompanying notes to this condensed consolidated interim financial information.

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

Liang Ningguang
Director

Liu Yongjie
Director

Condensed Consolidated Interim Income Statement

For the six months ended 30 June, 2006

| | Note | Six months ended 30 June, 2006 Unaudited HK\$'000 |
|---|------|--|
| Revenue – rental income | | 182,741 |
| Operating expenses | 15 | (56,791) |
| Operating profit | | 125,950 |
| Interest income from bank deposits | | 2,257 |
| Finance costs – excluding amounts attributable to Unitholders | 17 | (24,832) |
| Profit before tax and transactions with Unitholders | | 103,375 |
| Income tax expenses | 18 | — |
| Profit after tax before transactions with Unitholders | | 103,375 |
| Finance costs attributable to Unitholders (i) | | (128,311) |
| Result for the period | | (24,936) |

The above condensed consolidated interim income statement should be read with the accompanying notes to this condensed consolidated interim financial information.

Notes:

- (i) In accordance with the Trust Deed dated 7 December, 2005 (the “Trust Deed”), GZI REIT is required to distribute to Unitholders not less than 90% distributable income for each financial period. GZI REIT has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash dividends and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of GZI REIT less any liabilities, in accordance with Unitholders’ proportionate interests in GZI REIT at the date of the termination of GZI REIT. The Unitholders’ funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32: Financial Instruments: Disclosure and Presentation. Consistent with Unitholders’ funds being classified as a financial liability, the distributions to Unitholders are part of finance costs which are recognised in the income statement. The classification does not have an impact on the net assets attributable to the Unitholders. It only affects how Unitholders’ funds are disclosed in the balance sheet and how distributions are disclosed in the income statement. Distributable income is determined in the Distribution Statement on page 26.
- (ii) Earnings per unit based upon profit after tax before transactions with Unitholders and the average number of units in issue, is presented in note 19.
- (iii) There are no comparative figures for the condensed consolidated interim income statement as this is the first set of condensed consolidated interim income statement prepared for the Group since the date of establishment of GZI REIT, 7 December, 2005.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June, 2006

| | Unaudited | | |
|--|---|--|--------------------------------------|
| | Hedging reserve (Note 10) HK\$'000 | Retained earnings/ (deficit) HK\$'000 | Total equity HK\$'000 |
| Balance at 1 January, 2006 | (11,281) | 11,281 | — |
| Change in fair value of cash flow hedges | 24,936 | — | 24,936 |
| Result for the period | — | (24,936) | (24,936) |
| Balance at 30 June, 2006 | <u>13,655</u> | <u>(13,655)</u> | <u>—</u> |

The above condensed consolidated interim statement of changes in equity should be read with the accompanying notes to this condensed consolidated interim financial information.

Distribution Statement

For the six months ended 30 June, 2006

| | Six months ended 30 June, 2006 Unaudited HK\$'000 |
|---|--|
| Profit after tax before transactions with Unitholders | 103,375 |
| Adjustments for the total distributable income (i) | — |
| | <hr/> |
| Total distributable income | 103,375 |
| Distributable amount at 1 January, 2006 | 40,543 |
| Distribution declared during the period | — |
| | <hr/> |
| Distributable amount at 30 June, 2006 | 143,918 |
| | <hr/> <hr/> |
| Distribution per unit, proposed (ii)(iii) | HK\$0.1438 |
| | <hr/> <hr/> |

Notes:

- (i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit after tax before transactions with Unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the income statement for the relevant year or period. There are no such adjustments during the six months ended 30 June, 2006.
- (ii) Pursuant to the terms of Trust Deed, GZI REIT's first distribution will cover the period from 7 December, 2005 (date of establishment of GZI REIT) to 30 June, 2006 and will be paid on or before 30 November, 2006.
- (iii) At a meeting held on 24 August, 2006, the Manager proposed a distribution of HK\$0.1438 per unit. The proposed distribution is not reflected as distribution payable in this condensed interim financial information and will be reflected in the consolidated financial statements for the year ending 31 December, 2006.

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June, 2006

| | Six months ended 30 June, 2006 Unaudited HK\$'000 |
|--|--|
| Net cash generated from operating activities: | |
| Continuing operations | 163,219 |
| Interest paid on bank borrowings | (20,849) |
| | <hr/> |
| Cash flows from operating activities – net | 142,370 |
| | <hr/> |
| Net cash used in investing activities | |
| Decrease in an amount due to a related company | (55,000) |
| Interest received | 2,257 |
| | <hr/> |
| Cash flows from investing activities – net | (52,743) |
| | <hr/> |
| Cash flows from financing activities – net | — |
| | <hr/> |
| Increase in cash and cash equivalents | 89,627 |
| Cash and cash equivalents at the beginning of the period | 235,917 |
| | <hr/> |
| Cash and cash equivalents at the end of the period | 325,544 |
| | <hr/> <hr/> |

The above condensed consolidated interim cash flow statement should be read with the accompanying notes to this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 GENERAL INFORMATION

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

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

GZI REIT is listed on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information was approved for issue by the Board of Directors of the Manager on 24th August, 2006.

2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June, 2006 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The interim condensed financial report should be read in conjunction with the audited financial statements for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the audited financial statements for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005 except as described below.

(a) Effect of adopting new standards, amendments to standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December, 2006.

- Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”;
- Amendment to HKAS 39, Amendment “The fair value option” on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January, 2006;
- Amendment to HKAS 21, Amendment “Net investment in a foreign operation”;
- Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”;
- Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”;

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES (Continued)

(a) Effect of adopting new standards, amendments to standards and interpretations (Continued)

- HKFRS 6, “Exploration for and evaluation of mineral resources”;
- HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”;
- HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”;
- HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market – waste electrical and electronic equipment”.

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

The adoption of Amendment to HKAS 39, Amendment “The fair value option” has restricted the circumstances in which a financial asset or liability may be designated as at fair value through profit or loss and has resulted in a change in accounting policy relating to the measurement of net assets attributable to Unitholders, from fair value to amortised cost. The change in accounting policy has been made in accordance with the transitional provisions in the standard. The date of de-designation of net assets attributable to Unitholders as at fair value through profit or loss is deemed to be its date of initial recognition, which is 21 December, 2005. At the date of de-designation, the fair value of the net assets attributable to Unitholders was approximately HK\$3,075,000,000.

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

| | Effect on adoption of Amendment to HKAS 39, Amendment “The fair value option” HK\$’000 |
|--|---|
| Income statement item for the six months ended 30 June, 2006 | |
| - change in fair value of units | 350,000 |
| Result for the period | <u>(350,000)</u> |

The change in accounting policy does not have an impact on the net assets attributable to Unitholders as at 30 June, 2006 and 31 December, 2005.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES (Continued)

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

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

- HK(IFRIC)-Int 7, “Applying the Restatement Approach under HKFRS 29”, effective for annual periods beginning on or after 1 March, 2006;
- HK(IFRIC)-Int 8, “Scope of HKFRS 2”, effective for annual periods beginning on or after 1 May, 2006;
- HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1 June, 2006;
- HKFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1 January, 2007. HKAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1 January, 2007.

The Manager does not expect HK(IFRIC)-Int 7, 8 and 9 to be relevant to the Group. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from accounting periods beginning 1 January, 2007.

4 PROPERTY, PLANT AND EQUIPMENT - GROUP

| | Construction in progress HK\$'000 | Machinery and tools HK\$'000 | Total HK\$'000 |
|--|---|--|--------------------------|
| For the six months ended 30 June, 2006 | | | |
| Opening net book amount | — | 3,395 | 3,395 |
| Addition | 8,610 | — | 8,610 |
| Depreciation | — | (341) | (341) |
| Closing net book amount | <u>8,610</u> | <u>3,054</u> | <u>11,664</u> |
| At 30 June, 2006 | | | |
| Cost | 8,610 | 3,415 | 12,025 |
| Accumulated depreciation | — | (361) | (361) |
| Net book amount | <u>8,610</u> | <u>3,054</u> | <u>11,664</u> |

Notes to the Condensed Consolidated Interim Financial Information

5 INVESTMENT PROPERTIES - GROUP

Beginning and end of the period

HK\$'000

4,053,800

The investment properties are located in China and held on land use rights of 40 years to 50 years, expiring in 2047 through 2055. The directors of the Manager consider that there is no material change in the fair value of these investment properties between 1 January, 2006 to 30 June, 2006.

In the condensed consolidated interim income statement, direct operating expenses include HK\$294,000 relating to investment properties that were vacant.

As at 30 June, 2006, all investment properties were pledged as collateral for the Group's bank borrowings (Note 13).

6 DEFERRED ASSETS - GROUP

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

7 GOODWILL - GROUP

Beginning and end of the period

HK\$'000

152,917

Impairment test for goodwill

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

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

Notes to the Condensed Consolidated Interim Financial Information

7 GOODWILL - GROUP (Continued)

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

Discount rate 6.77%

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

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

| | 30 June, 2006 HK\$'000 | 31 December, 2005 HK\$'000 |
|---|---------------------------------------|----------------------------------|
| Rental receivables | 193 | 320 |
| Less: provision for impairment of receivables | — | — |
| Rental receivables – net | 193 | 320 |
| Prepayments, deposits and other receivables | 5,243 | 4,478 |
| | <u>5,436</u> | <u>4,798</u> |

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

The majority of the Group's rental income is received in cash and there is no specific credit terms given to the tenants. The rental receivables are generally fully covered by the rental deposits from corresponding tenants. All rental receivables at 30 June, 2006 and 31 December, 2005 are aged within 30 days.

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

Notes to the Condensed Consolidated Interim Financial Information

9 CASH AND CASH EQUIVALENTS - GROUP

As at 30 June, 2006, included in the cash and cash equivalents of the Group are bank deposits of approximately HK\$278,469,000 (31 December, 2005: HK\$110,927,000) denominated in Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The remittance of these funds out of China is subject to exchange control restrictions imposed by the Chinese government.

10 HEDGING RESERVE - GROUP

| | HK\$'000 |
|--|----------------------|
| For the six months ended 30 June, 2006 | |
| Balance at 1 January, 2006 | (11,281) |
| Cash flow hedges: | |
| - Fair value gains (Note 12) | 13,240 |
| - Transfer to net profit (Note 17) | 11,696 |
| | <u>13,655</u> |
| Balance at 30 June, 2006 | <u><u>13,655</u></u> |

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

| | 30 June, 2006 HK\$'000 | 31 December, 2005 HK\$'000 |
|---|------------------------------|----------------------------------|
| Rental deposits, current portion | 7,479 | 6,138 |
| Receipts in advance | 17,582 | 21,842 |
| Provision for withholding tax payable | 5,252 | 3,060 |
| Provision for business tax and flood prevention fee | 2,814 | 564 |
| Accruals for operating expenses | 28,869 | 6,956 |
| Payable for decoration services | 4,122 | — |
| Accruals and other payables | 41,057 | 10,580 |
| | <u>66,118</u> | <u>38,560</u> |

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

Non-current rental deposits of the Group were approximately HK\$59,743,000 as at 30 June, 2006 (31 December, 2005: HK\$63,695,000).

Notes to the Condensed Consolidated Interim Financial Information

12 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

| | HK\$'000 |
|---|--------------|
| Interest rate and currency swaps – cash flow hedges | |
| For the six months ended 30 June, 2006 | |
| Balance at 1 January, 2006 | (11,231) |
| Fair value gains (Note 10) | 13,240 |
| | <hr/> |
| Balance at 30th June 2006 | <u>2,009</u> |

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

Interest rate and currency swaps

The notional principal amounts of the outstanding interest rate and currency swap contracts at 30 June, 2006 were US\$165,000,000.

At 30 June, 2006, the fixed interest rate for the bank borrowings vary from 3.18% to 3.28% and the floating rates are LIBOR plus 1.35%. The contract reference exchange rate for the bank borrowings is 8.07847 Renminbi per one US dollar and the spot rate is the exchange rate announced by the State Administration of Foreign Exchange in China.

Gains and losses recognised in the hedging reserve in equity (Note 10) on interest rate and currency swap contracts as of 30 June, 2006 will be continuously released to the income statement until the repayment of the secured bank borrowings (Note 13).

Notes to the Condensed Consolidated Interim Financial Information

13 BANK BORROWINGS, SECURED - GROUP

| | 30 June, 2006 HK\$'000 | 31 December, 2005 HK\$'000 |
|--------------------|---------------------------------------|----------------------------------|
| Non-current | | |
| Bank borrowings | <u>1,247,503</u> | <u>1,255,216</u> |

On 7 December, 2005 (date of establishment of GZI REIT), the subsidiaries of GZI REIT and the lending banks (the "Lending Banks") entered into a Facility Agreement in connection with a loan facility of US\$165,000,000 (equivalent to HK\$1,280,000,000) with a maturity period of three years for the financing of the acquisition of subsidiaries from Guangzhou Construction & Development Co. Ltd. The loans were fully drawn down by the Group on 21 December, 2005. The subsidiaries of GZI REIT also entered into an interest rate and US\$/RMB currency non-deliverable swap facility with the Lending Banks on 21st December 2005. Details regarding the swap facility are set out in note 12.

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

- investment properties of approximately HK\$4,053,800,000 (Note 5)
- assignment of rental income and all other proceeds arising from each of the investment properties and of all tenancy agreements relating to each of the investment properties
- equity interests of Partat Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited, subsidiaries of the Group

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

| | 30 June, 2006 HK\$'000 | 31 December, 2005 HK\$'000 |
|-----------------------|---------------------------------------|----------------------------------|
| Between 2 and 5 years | <u>1,247,503</u> | <u>1,255,216</u> |

The effective interest rate of the bank borrowings at the balance sheet date was 6.77% (31 December, 2005: 5.89%). The carrying amounts of the borrowings approximate their fair value.

The Group has no undrawn borrowing facilities as at 30 June, 2006. (31 December, 2005: Nil)

Notes to the Condensed Consolidated Interim Financial Information

14 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the six months ended 30 June, 2006

Balance at 1 January, 2006

Transfer from income statement

Distribution declared during the period

Balance at 30 June, 2006

HK\$'000

3,015,914

128,311

—

3,144,225

15 EXPENSES BY NATURE

Operating expenses include the following:

Property management fee (a)

Urban real estate tax

Business tax and flood prevention fee

Withholding tax (b)

Depreciation expenses of property, plant and equipment

Asset management fee

Trustee's remuneration

Valuation fee

Legal and professional fee

Auditors' remuneration

Bank charges

HK\$'000

6,097

4,725

9,264

17,477

341

11,445

664

40

500

750

16

Notes:

- (a) The Group received leasing, marketing and tenancy management services from two leasing agents, namely, Guangzhou YiCheng Property Management Ltd. and White Horse Property Management Co. Ltd (Note 21).
- (b) Withholding tax on the rental income and interest income in China is calculated based on the rental income (net of business tax paid) and interest income at a rate of 10 per cent.

16 EMPLOYEE BENEFIT EXPENSE

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

Notes to the Condensed Consolidated Interim Financial Information

17 FINANCE COSTS

Interest expense:

– bank borrowings wholly repayable within five years (Note 13)

Net foreign exchange transaction gains

Fair value gains on financial instruments:

– interest rate and currency swaps: cash flow hedge, transfer from reserve (Note 10)

HK\$'000

25,073

(11,937)

11,696

24,832

18 INCOME TAX EXPENSES

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

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

There is no material unprovided deferred taxation as at 30 June, 2006.

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

Earnings per unit based upon profit after tax before transactions with Unitholders for the six months ended 30 June, 2006 is approximately HK\$0.1033. The calculation of earnings per unit is based on profit after tax before transactions with Unitholders of approximately HK\$103,375,000 and on 1,000,000,000 units in issue during the period.

Diluted earnings per unit is not presented as there is no dilutive instruments for the six months ended 30 June, 2006.

20 CAPITAL COMMITMENTS

Capital commitments in respect of property, plant and equipment, contracted but not provided for

2006
HK\$'000

3,265

There was no capital commitment as at 31 December, 2005.

Notes to the Condensed Consolidated Interim Financial Information

21 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

The table set forth below summarized the names of connected parties, as defined in the REIT Code, and nature of relationship with GZI REIT as at 30 June, 2006:

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

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

Notes to the Condensed Consolidated Interim Financial Information

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

(a) Transactions with connected parties/related parties

The following transactions were carried out with connected parties/related parties:

| | HK\$'000 |
|---|-------------------|
| Asset management fee paid/payable to the Manager (ii) | (11,445) |
| Decoration expenses paid/payable to GCCD Decoration, net (iv) | (358) |
| Management fee paid/payable to Yicheng | (2,452) |
| Management fee paid/payable to White Horse Property Management Co. Ltd | (3,645) |
| Rental income received/receivable from Guangzhou City Construction & Development Xingye Property Agent Ltd. | 948 |
| Rental income received/receivable from GZI | 551 |
| Rental income received/receivable from Yue Xiu Enterprises (Holdings) Limited | 24 |
| Rental income received/receivable from Yicheng | 3 |
| Trustee fee paid/payable to the Trustee | (664) |
| Valuation fee paid/payable to the Valuer | (40) |
| Transactions with the HSBC Group | |
| Interest expense paid/payable to the HSBC Group (iii) | 8,026 |
| Rental income received/receivable from the HSBC Group | 3,916 |
| Interest income from the HSBC Group | 1,106 |
| | <u> </u> |

Notes:

- (i) All transactions with connected parties/related parties were carried out in accordance with the terms of the relevant agreement governing the transactions.
- (ii) The asset management fee is calculated as the aggregate of a base fee of 0.3% per annum of the value of the Deposited Property, as defined in the Trust Deed and a service fee of 3% per annum of Net Property Income, as defined in the Trust Deed.
- (iii) The Group also entered into an interest rate and US\$/RMB currency non-deliverable swap facility with the HSBC Group on 21 December, 2005. Details of the swap arrangement are disclosed in Note 12.
- (iv) In January 2006, the Group entered into an agreement (the "Main Contract") of HK\$4,977,741 with GCCD Decoration in connection with the renovation of certain units of White Horse Building. Pursuant to supplementary agreements entered into between the Group, GCCD Decoration and two third-party subcontractors dated 28 January, 2006, GCCD Decoration subcontracted part of the contract work, amounting to HK\$4,579,522 of the contract sum of the Main Contract, to these third-party subcontractors.

Notes to the Condensed Consolidated Interim Financial Information

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

(b) Balances with related parties

The following balances were carried out with related parties:

| | 30 June, 2006 HK\$'000 | 31 December, 2005 HK\$'000 |
|--|---------------------------------------|----------------------------------|
| Balance with GZI | | |
| Amount due to GZI | (1,618) | (1,606) |
| Balance with GCD Holding | | |
| Amount due to GCD Holding | (23,941) | (78,941) |
| Balance with GCCD | | |
| Amount due to GCCD | (871) | (871) |
| Balance with White Horse JV | | |
| Amount due (to)/from White Horse JV | (577) | 9,810 |
| Balance with Yicheng | | |
| Amount due to Yicheng | (7,900) | (142) |
| Balance with White Horse Property Management Co. Ltd. | | |
| Amount due to White Horse Property Management Co. Ltd. | (9,684) | (98) |
| Balance with GCCD Decoration | | |
| Amount due to GCCD Decoration | (358) | — |
| | <u><u> </u></u> | <u><u> </u></u> |

Note:

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

(c) Key management compensation

There was no key management compensation for the six months ended 30 June, 2006.

Notes to the Condensed Consolidated Interim Financial Information

22 FUTURE MINIMUM RENTAL RECEIVABLE - GROUP

At 30 June, 2006, the Group had future minimum rental receivable under non-cancellable leases as follows:

| | HK\$'000 |
|---|-------------|
| Not later than one year | 349,630 |
| Later than one year and not later than five years | 797,076 |
| Later than five years | 27,036 |
| | <hr/> |
| | 1,173,742 |
| | <hr/> <hr/> |

Corporate and Investor Relations Information

BOARD OF DIRECTORS OF THE MANAGER

Executive directors

Mr Liang Ningguang (*Chairman*)
Mr Liu Yongjie

Non-executive director

Mr Liang Youpan

Independent non-executive directors & audit committee members

Mr Chan Chi On, Derek
Mr Lee Kwan Hung, Eddie
Mr Chan Chi Fai, Brian

Responsible Officers of the Manager

Mr Liang Ningguang
Mr Liu Yongjie
Mr Lau Jin Tin Don

COMPANY SECRETARY OF THE MANAGER

Mr Yu Tat Fung

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

AUDITORS OF GZI REIT

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL VALUER

Colliers International (Hong Kong) Ltd.

HONG KONG LEGAL ADVISOR

Baker & McKenzie
Paul, Hastings, Janofsky & Walker

PRINCIPAL BANKERS OF GZI REIT

Citigroup N. A., Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited
DBS Bank Ltd.

WEBSITES TO ACCESS INFORMATION IN RELATION TO GZI REIT

<http://www.gzireit.com.hk>
<http://www.hkex.com.hk>

REGISTERED OFFICE OF THE MANAGER

24th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai, Hong Kong

UNIT REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East, Wanchai Hong Kong

UNIT LISTING

GZI REIT's Units are listed on:
The Stock Exchange of Hong Kong Limited

The stock code is: 405

INVESTOR RELATIONS

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