THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Guangzhou Investment Company Limited ("Company" or "GZI"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer or invitation to acquire, purchase or subscribe for securities nor is it calculated to invite any such offer or invitation.

越秀投資有限公司

GUANGZHOU INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 123)

MAJOR TRANSACTION IN RELATION TO THE SEPARATE LISTING OF GZI REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Financial adviser to Guangzhou Investment Company Limited

Goldbond Capital (Asia) Limited

Independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Separate Listing

Yu Ming Investment Management Limited

A letter from Yu Ming Investment Management Limited, the independent financial adviser to the independent board committee and shareholders of Guangzhou Investment Company Limited, is set out on pages 50 to 71 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong on Saturday, 10 December 2005 at 9:30 a.m. is set out in this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding of the meeting (or any adjourned meeting 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.

25 November 2005

EXPECTED TIMETABLE

	2005
Despatch date of this circular	25 November
Last day of dealings in the Shares cum entitlement to the Distribution	6 December
First day of dealings in the Shares ex-entitlement to the Distribution	7 December
Latest time for lodging transfers of the Shares cum entitlement to the Distribution	4:00 p.m. on 8 December
Latest time for return of forms of proxy in respect of the EGM	9:30 a.m. on 8 December
Record Date for determining the entitlement to the Distribution	9 December
Register of members of the Company closes	9 December
EGM	9:30 a.m. on 10 December
Register of members of the Company re-opens	12 December

All times refer to Hong Kong local time.

Please note that the above timetable is subject to change. If there are changes to the above timetable, the Company will publish an announcement as soon as practicable.

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In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

"Adjustment"	the Initial Adjustment and the Combined Net Assets Adjustment
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Auditors"	the auditors of the Company, PricewaterhouseCoopers, Certified Public Accountants, of 22nd Floor, Prince's Building, Central, Hong Kong
"Authorisation"	the authorisation of GZI REIT by the SFC under section 104 of the SFO
"Board"	the board of Directors
"BVI"	British Virgin Islands
"BVI Companies"	Partat, Moon King, Full Estates and Keen Ocean, being the respective owners of the White Horse Units, the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units, and "BVI Company" means any one of them
"Cash Payment"	a cash payment in an amount to be determined by reference to the Offer Price (after deducting applicable taxes, stamp duty, SFC transaction levy, Stock Exchange trading fee and investor compensation levy, if any), which is to be paid to (i) the Qualifying Shareholders who elect to exercise the Option and (ii) the Ineligible Overseas Shareholders
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"City Development Plaza Units"	total of 165 strata units in City Development Plaza (城建大廈) (located at Nos. 185, 187 and 189, Ti Yu Xi Road, Tian He District, Guangzhou, the PRC)
"Colliers" or "Independent Property Valuer"	Colliers International (Hong Kong) Ltd, an independent property valuer
"Combined Net Assets"	the combined net assets of the BVI Companies
"Combined Net Assets Adjustment"	the adjustment to the Initial Consideration due to an increase or reduction (as the case may be) in the Combined Net Assets in the interval from the date of the Reorganisation Deed until the day immediately preceding the Listing Date, calculated and made in accordance with the Reorganisation Deed

"Company" or "GZI"	Guangzhou Investment Company Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board and Singapore Exchange Securities Trading Limited
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified for the time being
"Completion"	the completion of the transfer of the Issued Shares pursuant to the Reorganisation Deed
"Deed of Indemnity"	the deed expected to be entered into between Holdco, the Manager, the Trustee, GCCD BVI and GZI on Completion in respect of the indemnity against (among other things) taxation by GCCD BVI and GZI in favour of Holdco (for itself and as trustee for each of the BVI Companies), the Manager and the Trustee
"Deposited Property"	all the assets of GZI REIT
"Director(s)"	the director(s) of the Company
"Distribution"	the conditional payment of a special dividend by the Company to the Shareholders to be satisfied: (a) by way of a distribution in specie of the Units to the Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date (other than the Ineligible Overseas Shareholders); and (b) by way of cash payment (after deducting applicable taxes, stamp duty, SFC transaction levy, Stock Exchange trading fee and investor compensation levy (if any)) to the Ineligible Overseas Shareholders, in either case, on the terms and conditions contained herein this circular
"Dragon Yield"	Dragon Yield Holding Limited, a company incorporated in the BVI and is a wholly-owned subsidiary of the Company
"EGM"	the extraordinary general meeting of the Company to be held at 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong on 10 December 2005 at 9:30 a.m., notice of which is set out on pages 278 to 281 of this circular

"Facility Agreement"	the facility agreement to be entered into between the BVI Companies, Holdco and the Lending Banks in respect of the Loan Facility
"FE Issued Share"	the one Full Estates share in issue, representing the entire issued share capital of Full Estates as at the Latest Practicable Date
"Financial Year"	(i) for the first Financial Year, the period from and including the date of establishment of GZI REIT to 31 December 2005; (ii) 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 (iii) in all other circumstances, the 12-month period ending on 31 December in each year
"Fortune Plaza Units"	total of 83 strata units in Fortune Plaza (財富廣場) (located at Nos. 114, 116, 118 Ti Yu Dong Road, Tian He District, Guangzhou, the PRC)
"Full Estates"	Full Estates Investment Limited, a company incorporated in the BVI and is a wholly-owned subsidiary of the Company
"GCCD"	Guangzhou City Construction & Development Co. Ltd. (廣州市城市建設開發有限公司), a company incorporated in the PRC and is 95% indirectly owned by the Company
"GCCD BVI"	Guangzhou Construction & Development Holdings (China) Limited, a company incorporated in the BVI and is the beneficial owner of the entire issued shares of Full Estates, Keen Ocean, Moon King and Partat, which are the respective registered owners of the City Development Plaza Units, the Victory Plaza Units, the Fortune Plaza Units and the White Horse Units. GCCD BVI is a wholly-owned subsidiary of the Company
"Global Offering"	the Hong Kong Public Offering and the International Offering
"GZI Group"	GZI and its subsidiaries
"GZI REIT"	GZI Real Estate Investment Trust, a collective investment scheme which will be constituted as a unit trust and which will be subject to authorisation by the SFC under section 104 of the SFO

"HKSCC"	Hong Kong Securities Clearing Company Limited
"Holdco"	GZI REIT (Holding) 2005 Company Limited, a company to be incorporated in Hong Kong and will be wholly-owned by the Trustee in trust for GZI REIT upon completion of the Reorganisation
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Public Offering"	the proposed public offer of the Units in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions to be further described in the Offering Circular and the application forms relating thereto
"Independent Board Committee"	Messrs. Yu Lup Fat, Joseph, Lee Ka Lun and Lau Hon Chuen, Ambrose, all independent non-executive Directors, have been appointed as the members of the independent board committee of the Company to advise the Shareholders on how to vote on the resolution to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing
"Ineligible Overseas Shareholders"	Shareholders whose addresses on the register of members of GZI were outside Hong Kong on the Record Date and have to be excluded from the Distribution and Option on the account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place which the Directors, after reasonable enquiries, consider such exclusion to be necessary or expedient
"Initial Adjustment"	the initial adjustment to the Initial Consideration calculated and made in accordance with terms as stated in the Reorganisation Deed
"Initial Consideration"	the initial consideration payable by Holdco for the Issued Shares under the Reorganisation Deed, as detailed in the sub-paragraph headed "Consideration" in the paragraph headed "Reorganisation" in the letter from the Board
"Interim Report"	the interim report of the Company for the six months ended 30 June 2005 and dated 23 September 2005

"International Offering"	the proposed offering of the Units (including the Units proposed to be transferred to the Qualifying Shareholders, who elect to exercise the Option, and the Units which the Ineligible Overseas Shareholders would otherwise have been entitled to receive under the Distribution) outside of Hong Kong Public Offering of Units for cash at the Offer Price to institutional, professional and other investors to be further described in the Offering Circular
"IPO Transaction Costs"	all the costs and expenses incurred by the Manager or the Trustee for the account of GZI REIT in connection with the Global Offering
"Issued Shares"	the FE Issued Share, the KO Issued Share, the MK Issued Share and the PI Issued Share, representing the entire issued share capital of the BVI Companies
"Joint Global Coordinators"	The Hongkong and Shanghai Banking Corporation Limited, Citigroup Global Markets Asia Limited and DBS Bank Ltd., Hong Kong Branch
"Keen Ocean"	Keen Ocean Limited, a company incorporated in the BVI and is a wholly-owned subsidiary of the Company
"KO Issued Share"	the one Keen Ocean share in issue, representing the entire issued share capital of Keen Ocean
"Latest Practicable Date"	21 November 2005, being the latest practicable date for the purposes of ascertaining certain information contained in this circular
"Leasing Agents"	White Horse Property Management Company and Yi Cheng, and "Leasing Agent" means any of them
"Lending Banks"	Citibank, N.A., Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited and DBS Bank Ltd., Hong Kong Branch
"Listing Approval"	the approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Units to be issued pursuant to the Reorganisation Deed and to be issued in connection with the Global Offering
"Listing Committee"	listing committee of the Stock Exchange
"Listing Date"	the date on which the Units are first listed and from which dealings are permitted to take place on the Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Facility"	the US$165.0 million (equivalent to approximately HK$1,287.0 million) three-year floating rate term loan facility to be granted to the BVI Companies by the Lending Banks
"Loan Proceeds"	the gross amount borrowed under the Loan Facility
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market operated by the Stock Exchange
"Manager"	GZI REIT Asset Management Limited
"MK Issued Share"	the one Moon King share in issue, representing the entire issued share capital of Moon King
"Moon King"	Moon King Limited, a company incorporated in the BVI and is a wholly-owned subsidiary of the Company
"Offer Price"	the final Hong Kong dollar price per Unit (exclusive of brokerage of 1.0%, Hong Kong Stock Exchange trading fee of 0.005%, SFC transaction levy of 0.005% and investor compensation levy of 0.002% (if any)) at which the Units are to be issued and allocated pursuant to the Global Offering to be further described in the Offering Circular
"Offering Circular"	the offering circular proposed to be issued by GZI REIT in relation to the Global Offering
"Option"	an option to be granted to and exercisable by each of the Qualifying Shareholders to elect to receive the Cash Payment in lieu of the whole of (in the case of HKSCC Nominees Limited, the whole or part of) the Units proposed to be transferred to him/her pursuant to the Distribution on and subject to the terms and conditions herein and in the forms of election for exercising the Option which will be despatched to Qualifying Shareholders on or after the date of the EGM
"Over-allocation Option"	the option proposed to be granted by GZI to the Joint Global Coordinators to make available up to a certain number of Units solely to cover over-allocation of Units (if any), to be offered to investors as part of the International Offering
"Partat"	Partat Investment Limited, a company incorporated in the BVI and is a wholly-owned subsidiary of the Company

"PI Issued Share"	the one Partat share in issue, representing the entire issued share capital of Partat
"PN15"	practice note 15 of the Listing Rules
"PRC" or "China"	the People's Republic of China; except where the context requires, references in this circular to the PRC or China do not apply to Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan
"Properties"	the White Horse Units, the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units, and "Property" means any one of them
"Proposed Spin-off"	the proposed spin-off of GZI REIT and Separate Listing
"Qualifying Shareholders"	holders of the Shares (other than Ineligible Overseas Shareholders), whose names appear on the register of members of GZI as at the close of business on the Record Date
"Record Date"	9 December 2005 (or such other date as the Board may determine), being the record date for determining entitlements of Shareholders to participate in the Distribution
"Registrar"	the share registrar of the Company, Abacus Share Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
"REIT"	real estate investment trust
"REIT Code"	Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being
"Rental Income"	the rental income derived from leases of the Properties
"Reorganisation"	the internal reorganisation involving the transfer of the Issued Shares from GCCD BVI to Holdco
"Reorganisation Deed"	the reorganisation deed to be entered into between GCCD BVI, GZI, Holdco, the Manager and the Trustee, which is more particularly described in the paragraph headed "Reorganisation" of this circular
"Right of First Refusal"	right of first refusal proposed to be granted by the Company to GZI REIT
"Separate Listing"	the proposed separate listing of the Units on the Main Board

"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being
"Shares"	shares of HK$0.10 each in the share capital of the Company
"Shareholders"	shareholders of the Company
"Special Resolution"	a resolution of Unitholders passed by a majority consisting of 75.0% 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 25.0% of Units in issue
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Tenancy Services Agreements"	the tenancy services agreements entered into by the Manager and each of Full Estates, Moon King and Keen Ocean with Yi Cheng, and by the Manager and Partat with White Horse Property Management Company, and "Tenancy Services Agreement" means any one of them
"Total Distributable Income"	has the meaning given to it in the sub-paragraph headed "Distribution policy" under the paragraph headed "Information on GZI REIT" in the letter from the Board
"Trust Deed"	the trust deed to be entered into between the Trustee and the Manager constituting GZI REIT (as amended by any supplemental deed)
"Trustee"	HSBC Institutional Trust Services (Asia) Limited, who will act as the trustee of GZI REIT
"Unit(s)"	unit(s) of GZI REIT
"Unitholder(s)"	the registered holder for the time being of a Unit including persons so registered as joint holders
"Victory Plaza Units"	total of 9 strata units in Victory Plaza (維多利廣場) (located at No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, the PRC)
"White Horse Property Management Company"	Guangzhou White Horse Property Management Co., Ltd. (廣州白馬物業管理有限公司), a company incorporated in the PRC and is 96.8% owned by the Company

"White Horse Units"	total of 9 strata units in White Horse Building (白馬大廈) (located at Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, the PRC)
"Yi Cheng"	Guangzhou Yicheng Property Management Ltd. (廣州怡城物業管理有限公司), a company incorporated in the PRC and a subsidiary of GZI
"Yue Xiu"	Yue Xiu Enterprises (Holdings) Limited, a company incorporated in Hong Kong
"Yu Ming"	Yu Ming Investment Management Limited, the independent financial adviser to the Independent Board Committee and the Shareholders, a corporation deemed licensed to conduct types 1, 4, 6 and 9 regulated activities under the SFO
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB" or "Renminbi"	Renminbi, being the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

In this circular, unless otherwise stated, certain amounts denominated in HK$ have been translated into US$ at an exchange rate of HK$7.80 = US$1.00 and certain amounts relating to periods on or before 30 June 2005 denominated in RMB have been translated into HK$ at an exchange rate of RMB1.07 = HK$1 and certain amounts relating to periods after 30 June 2005 denominated in RMB have been translated into HK$ at an exchange rate of RMB1.04 = HK$1 for illustration purpose only. Such conversions shall not be construed as representations that amounts in HK$ were or may have been converted into US$, or that amounts in RMB were or may have been converted in HK$, at such rates or any other exchange rates.

In the event of inconsistency between the Chinese name of the PRC entities mentioned in this circular and their English translation, the English version shall prevail.

Unless otherwise stated, the unaudited figures contained in this circular are prepared under accounting principles generally accepted in Hong Kong.

Directors

Executive Directors	Ou Bingchang *(Chairman)* Liang Yi Chen Guangsong Liang Ningguang Li Fei
Independent non-executive Directors	Yu Lup Fat Joseph Lee Ka Lun Lau Hon Chuen Ambrose
Financial adviser to the Company	Goldbond Capital (Asia) Limited 3902B, 39th Floor Tower 1, Lippo Centre 89 Queensway Hong Kong
Independent financial adviser to the Independent Board Committee and the Shareholders	Yu Ming Investment Management Limited 1001, 10th Floor AON China Building 29 Queen's Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong law* Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong
Auditors	PricewaterhouseCoopers Certified Public Accountants 22nd Floor, Prince's Building Central Hong Kong
Independent property valuer	Colliers International (Hong Kong) Ltd Suite 5701, Central Plaza 18 Harbour Road Wanchai Hong Kong
Registrar	Abacus Share Registrars Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong

越秀投資有限公司
GUANGZHOU INVESTMENT COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 123)

Executive Directors:
Ou Bingchang *(Chairman)*
Liang Yi
Chen Guangsong
Liang Ningguang
Li Fei

Independent non-executive Directors:
Yu Lup Fat Joseph
Lee Ka Lun
Lau Hon Chuen Ambrose

Registered office:
24th Floor, Yue Xiu Building
160-174 Lockhart Road
Wanchai
Hong Kong

25 November 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE SEPARATE LISTING OF GZI REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

INTRODUCTION

The Board announced on 24 November 2005 that it is currently considering the Proposed Spin-off. An application will be made to the SFC for the Authorisation and a formal application will be made by GZI REIT to the Stock Exchange for the proposed listing of the Units on the Main Board. There is proposed to be a Global Offering of the Units, comprising an offer for subscription by way of public offer in Hong Kong and an international placement to professional, institutional and other investors.

The purposes of this circular are: (1) to provide the Shareholders with information on the reasons for, and the benefits of, the Proposed Spin-off (together with such other information relating to the Separate Listing as is required by the Listing Rules for a major transaction of the Company) and information on the Reorganisation, the Distribution and other related matters; (2) to set out the recommendations of the Independent Board Committee to the Shareholders; (3) to set out the letter of advice from Yu Ming containing its recommendation to the Independent Board Committee and the Shareholders as regards voting on the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing; (4) to seek Shareholders' approval for the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing by way of poll; and (5) to give notice to the Shareholders of the EGM at which an ordinary resolution will be proposed to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing by way of poll.

The Proposed Spin-off and the Global Offering are subject to, among other things, the Listing Approval being granted by the Listing Committee. Accordingly, Shareholders should note that the Proposed Spin-off and the proposed Global Offering are, inter alia, dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there can be no assurance that such transactions will proceed. Accordingly, Shareholders or other persons contemplating buying or selling Shares are reminded to exercise caution when dealing in the securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their positions.

The Directors confirm that the Company complies with all of the requirements set out under PN15.

BACKGROUND

The principal businesses of the GZI Group are property development, management and investment, newsprint manufacturing and the operation of toll roads and bridges. In anticipation of the Separate Listing, the GZI Group is considering the implementation of the Reorganisation under which the Issued Shares will be transferred to Holdco for the Initial Consideration as detailed in the paragraph headed "Reorganisation" below.

It is proposed that new Units will be issued by GZI REIT pursuant to the Global Offering. In connection with the Separate Listing, the Distribution will be made to the Shareholders whose names appear on the register of members of GZI as at the close of business on the Record Date.

As a result of the issue of the new Units and assuming that the Over-allocation Option is exercised in full, the GZI Group's interest in GZI REIT will be reduced from 100% to approximately 30% immediately following completion of the Global Offering and after the Distribution. Such issue of new Units will give rise to a deemed disposal by the Company under Rule 14.29 of the Listing Rules. It is presently estimated that the consideration ratio under Rule 14.32 of the Listing Rules will exceed 25% but will be less than 75% and thus, the transaction will constitute a major transaction for the Company under Rule 14.06 of the Listing Rules, which will be subject to the approval of the Shareholders under Rule 14.40 of the Listing Rules.

As the interests in relation to the Distribution and the Separate Listing and other related matters of all Shareholders (including the controlling shareholder (as defined in the Listing Rules) of the Company) are not different, all Shareholders are entitled to vote on the ordinary resolution at the EGM. In addition, and without limiting the generality of foregoing, Yue Xiu, the controlling shareholder (as defined in the Listing Rules) of the Company, which (through intermediate holding companies) holds approximately 50.2% of the issued share capital of the Company as at the Latest Practicable Date, has no material interest in the proposed transaction (for the purpose of Rule 2.16 of the Listing Rules) and thus, is entitled to vote on, and has given irrevocable undertaking to vote for, such resolution in connection with the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing.

INFORMATION ON GZI REIT

1. Description of a REIT

A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income producing real estate assets and uses the income to provide returns to its unitholders. Purchasing a unit in a real estate investment trust allows investors to share the benefits, as well as risks, of owning the real estate assets held by the REIT. An investment in the units of a REIT in Hong Kong is governed primarily by the REIT Code and offers the following benefits:

- certainty as to business focus, as a REIT does not have the discretion to diversify outside of the real estate sector or to own significant non-real estate assets;
- a distribution which is required by the REIT Code to be at least 90.0% of the REIT's audited net income after tax for each financial year (subject to adjustments allowed under the REIT Code and the Trust Deed);
- a conservative capital structure with the REIT Code limiting the borrowings of a REIT to 45.0% of the total gross asset value thereof;
- enhanced liquidity in comparison to direct investments in real estate;
- a manager licensed and regulated on an ongoing basis by the SFC; and
- a statutory and regulatory corporate governance framework and an internal corporate governance framework overseen by an independent trustee.

2. Objectives of GZI REIT

The Manager's key objective for GZI REIT is to provide Unitholders with stable distributions per Unit with the potential for sustainable long-term growth of such distributions. The Manager intends to accomplish this objective through investing in income producing real estate which is primarily used for office, retail and other commercial purposes, initially in Guangdong Province in the PRC.

3. **Investment objective and policy**

The Manager's investment objective for GZI REIT is to invest in properties in Guangdong Province. In pursuing its investment objective, the Manager will adopt 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.

4. **Distribution policy**

The Manager's distribution policy is to distribute to the Unitholders 100.0% of Total Distributable Income for each of Financial Year 2006 to Financial Year 2008 and thereafter at least 90.0% of Total Distributable Income in each Financial Year.

For these purposes, and under the proposed terms of the Trust Deed, "Total Distributable Income" for a Financial Year means the amount calculated by the Manager as representing the consolidated audited profit after tax of GZI REIT and entities controlled by GZI REIT, prepared in accordance with Hong Kong Accounting Standards (HKAS), for that Financial Year, as adjusted for accounting purposes to eliminate the effects of accounting adjustments which are charged or credited to the profit and loss account for the relevant Financial Year, including: (i) the effects of unrealised property valuation gains, including reversals of impairment provisions; (ii) realised gains on the disposal of properties; (iii) fair value gains on financial instruments; (iv) deferred tax charges/credits in respect of property valuation movements; (v) other material non-cash gains; (vi) expenses paid out of the Deposited Property in connection with the issue of new Units; and (vii) any adjustments in accordance with the generally accepted accounting principles in Hong Kong which increase those recorded under generally accepted accounting principles in the PRC on which the accounts of cash available for distribution is based (including reversal of depreciation charge on investment properties).

For the avoidance of doubt, non-cash losses such as property revaluation losses are not reversed from the profit and loss account of GZI REIT when the Manager calculates Total Distributable Income. The Manager may (but will not be obliged to) distribute any excess cash arising from non-cash losses (in which case, for Financial Year 2006 to Financial Year 2008, more than 100.0% of GZI REIT's Total Distributable Income could be distributed) or utilise such cash to replenish GZI REIT's asset base. In addition, GZI REIT does not have to distribute non-cash gains.

For a period determined by the Manager from time to time to be the period in respect of which distributions are to be made ("Distribution Period") that is not a Financial Year, "Total Distributable Income" means the amount determined by the Manager at its discretion.

For any Distribution Period, the Manager may, in its absolute discretion, distribute to the Unitholders more than the percentage of the Total Distributable Income required by the REIT Code (currently 90.0%) if the Manager considers GZI REIT has funds surplus to its business requirements.

Under the Trust Deed, the Manager must, subject to applicable law, ensure that at least one distribution shall be made in respect of each Financial Year and paid no later than the date five calendar months following the end of the relevant Financial Year. The Manager's initial distribution policy is that two distributions will be made in respect of each year, being distributions with respect to the six-month period ending 30 June and 31 December. The Directors anticipate that the interim and final distributions will be paid in November and May in each year, respectively. However, GZI REIT's distribution for the period from the Listing Date to 31 December 2005 will be paid together with the distribution for the period from 1 January 2006 to 30 June 2006 and is intended to be paid on or before 30 November 2006.

Distributions to the Unitholders will be declared and paid in Hong Kong dollars. The Manager may also adopt such rules as it considers appropriate for the reinvestment by the Unitholders of any distributions to be made by GZI REIT in return for new Units but no Unitholder shall be obliged to receive Units in lieu of a cash distribution. Under current Hong Kong tax law, distributions may be made free of withholdings or deductions on account of Hong Kong tax. It is understood that, under the current practice of the Hong Kong Inland Revenue Department, no tax should be payable in Hong Kong in respect of distributions made by GZI REIT. Unitholders should take advice from their own professional advisers as to their particular tax position.

GZI REIT's ability to make distributions is dependent on, among other things, GZI REIT having available and sufficient cash to make the payments required. The REIT Code requires that each company used to hold real estate and other assets for GZI REIT for the time being shall distribute to GZI REIT all of such company's income for each Financial Year insofar as permitted by the laws and regulations of its relevant jurisdiction of incorporation.

SEPARATE LISTING

1. The Proposed Spin-off and Distribution

There is proposed to be a Global Offering of the Units by GZI REIT, comprising an offer for subscription by way of public offer in Hong Kong and an international placement to professional, institutional and other investors. There is also proposed to be a Distribution and, in addition, an Option given to the Qualifying Shareholders.

The Proposed Spin-off, Distribution and Option are conditional upon, among other things, the Authorisation of the SFC under the REIT Code and the approval by the Stock Exchange for the Separate Listing and the Global Offering. These conditions include (i) the conditions of the Distribution as set out in the notice convening the EGM; (ii) the conditions of the Option described in the sub-paragraph headed "Conditions of the exercise of the Option" under the paragraph headed "Option" below; and (iii) the conditions for the proposed Global Offering to be set out in the Offering Circular. If such conditions are not fulfilled or the Proposed Spin-off does not proceed, the Distribution and Option will not be implemented.

Accordingly, it is expected that the Company's interest in GZI REIT will be reduced from 100% to approximately 40% immediately following the Global Offering and the Distribution (assuming that the Over-allocation Option is not exercised) and approximately 30% immediately following the Global Offering and the Distribution (assuming that the Over-allocation Option is exercised in full).

2. **Separate Listing of the Units**

The Shares will continue to be listed on the Main Board after the implementation of the Separate Listing. The listing of the Units on the Main Board is conditional upon the fulfillment of the conditions stated in the sub-paragraph headed "Conditions" below.

An application will be made to the SFC for the Authorisation and a formal application will be made to the Stock Exchange for the listing of, and permission to deal in, the Units to be issued pursuant to the Reorganisation Deed and to be issued in connection with the Global Offering, as set out in the Offering Circular to be issued by GZI REIT in due course (including any Units sold pursuant to the exercise of the Over-allocation Option).

Subject to the Authorisation and the Listing Approval, as well as compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

3. **Businesses of the GZI Group and GZI REIT**

The principal businesses of the GZI Group are property development, management and investment, newsprint manufacturing and the operation of toll roads and bridges.

The Manager's investment objective for GZI REIT is to invest in properties in Guangdong Province. 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.

The properties to be transferred to GZI REIT are as follows:

Name of property	Address	Description	Gross floor area	Appraised value as at 30 September 2005
White Horse Units	Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, the PRC	The White Horse Units consist of 9 strata units in part of the lower ground level as well as the 2nd to 9th storeys of a multi-storey commercial building with 8 storeys above ground, a lower ground level and a basement comprising a car park. The White Horse Units account for approximately 81.4% of the total gross floor area of White Horse Building.	50,199.3 sq.m.	HK$2,541.5 million
Fortune Plaza Units	Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, the PRC	The Fortune Plaza Units comprise 35 strata units in the West tower, 43 strata units in the East tower and 5 strata units in the 6-storey podium located in a mixed-use Grade A commercial building consisting of a podium and two towers. The Fortune Plaza Units account for approximately 50.2% of the total gross floor area of Fortune Plaza.	40,356.2 sq.m.	HK$545.0 million

Name of property	Address	Description	Gross floor area	Appraised value as at 30 September 2005
City Development Plaza Units	Nos. 185, 187 and 189, Ti Yu Xi Road, Tian He District, Guangzhou, the PRC	The City Development Plaza Units comprise 6 strata units in the first three storeys of the podium as well as 159 strata units in the single tower block of a 28-storey Grade A commercial building. The City Development Plaza Units account for approximately 57.3% of the total gross floor area of City Development Plaza.	42,397.4 sq.m.	HK$385.5 million
Victory Plaza Units	No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, the PRC	The Victory Plaza Units consist of 9 strata units comprising a six-storey podium and part of basement 1 in the first phase of an integrated office and retail complex with a basement car park. Two tower blocks above the podium are currently under construction and are expected to be completed in 2007. The tower blocks and car park are not part of the Victory Plaza Units. The Victory Plaza Units account for 100.0% of the total gross floor area of the Victory Plaza podium (which does not include the car park owned by GCCD), and will account for 19.5% of the total gross floor area of the entire development when the two tower blocks are completed.	27,698.1 sq.m.	HK$533.0 million
		Total:	160,651 sq.m.	HK$4,005 million

The Properties have been valued by the Independent Property Valuer. As at 30 September 2005, the aggregate appraised value of the Properties amounted to approximately HK$4,005 million. Based on the management accounts of the relevant Properties, the aggregate carrying value of the Properties as at 30 June 2005 amounted to approximately HK$3,204 million (which amount has been translated into HK$ at an exchange rate of RMB1.04 = HK$1 for illustration purpose only).

4. **Reasons for and benefits of the Separate Listing**

The Directors consider that the Proposed Spin-off will be beneficial for both the Company and GZI REIT based on the following reasons:

(a) the Separate Listing will increase the operational and financial transparency of GZI REIT and provide the investors, the investment market and rating agencies with greater clarity on the businesses and financial status of the Company and GZI REIT;

(b) the Separate Listing will substantially reduce the gearing and enhance the financial conditions of the Company;

(c) the Separate Listing will provide additional and diversified funding sources (and maybe on better terms as a result of the greater clarity referred to above) for GZI REIT to finance its future expansion. The Directors believe this will provide financial resources for GZI REIT's continuing expansion, thereby avoiding the Company having to increase their gearing to fund the expansion;

(d) the Separate Listing will also allow GZI REIT to establish a higher profile as a separate listed entity with the ability to access the debt and equity capital markets to fund future investments; and

(e) the Separate Listing will allow GZI REIT to achieve its valuation potential which in turn will be beneficial to the Shareholders as a whole.

Following the Separate Listing and assuming the Over-allocation Option is not exercised, the Company will retain an interest of approximately 40% of the total Units after the Distribution while continuing to receive diversified mix of income flow from its existing business (property development, management and investment, newsprint manufacturing and the operation of toll roads and bridges).

5. **Intended use of proceeds**

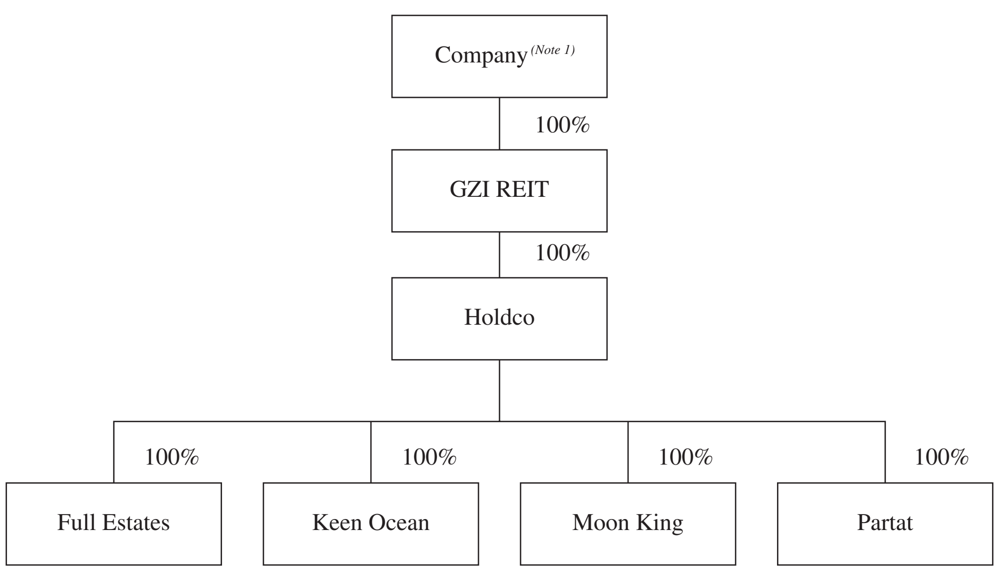
It is the present intention of the Directors to use all the anticipated net cash proceeds (subject to the Offer Price and relevant expenses) to be received by GZI from the Separate Listing for reducing gearing level and interest expenses of the GZI Group, thereby improving the liquidity and financial position of the GZI Group. Based on the estimation of the Directors and with reference to the valuation of the Properties, the net cash proceeds (subject to the Offer Price and relevant expenses) to be received by GZI from the Separate Listing is expected to be approximately HK$2,400 million to HK$3,200 million.

Should the final net cash proceeds from the Separate Listing be more than the abovementioned amount, such excess will also be applied for reducing gearing level and interest expense of the GZI Group.

6. **Effect of the Separate Listing**

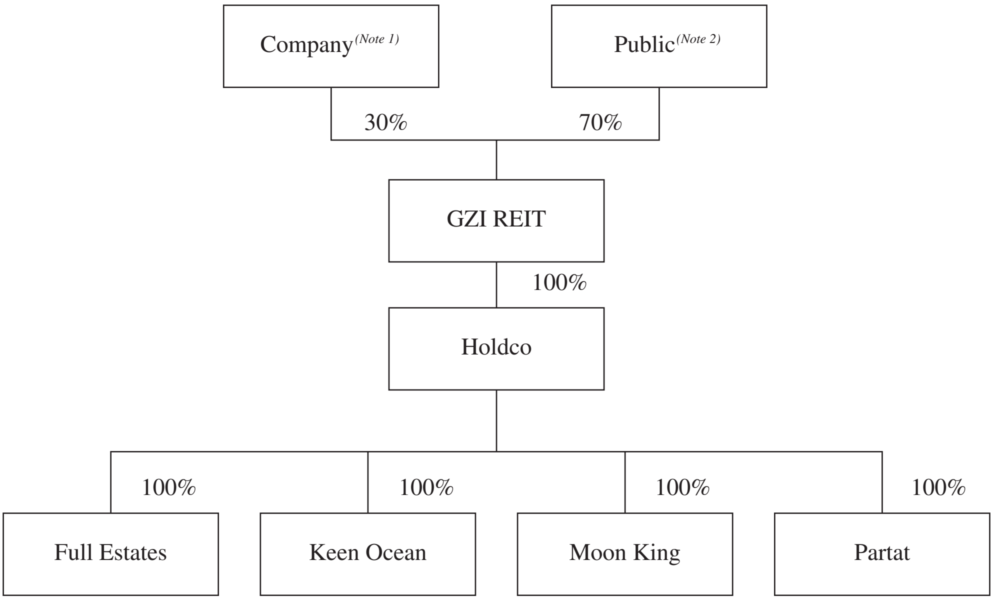
(i) *Unitholding structure of GZI REIT prior to the Separate Listing*

A simplified unitholding structure of GZI REIT immediately after the Reorganisation but prior to the Separate Listing will be as follows:



(ii) *Proposed unitholding structure of GZI REIT upon completion of the Separate Listing*

A simplified unitholding structure of GZI REIT immediately following completion of the Separate Listing and after the Distribution (assuming that the Over-allocation Option is exercised in full) will be as follows:



Notes:

1. The Company's interest in GZI REIT will be held via its wholly-owned subsidiary.

2. Public includes Qualifying Shareholders who receive the Units pursuant to the Distribution.

(iii) *Profits tax*

GZI REIT, as a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO, will be exempt from Hong Kong profits tax but the Manager will be subject to Hong Kong profits tax. Distributions made by GZI REIT to Unitholders are not subject to any withholding tax in Hong Kong.

(iv) *Stamp duty*

No Hong Kong stamp duty is payable by GZI REIT on the issue of new Units.

(v) *General*

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to tax implications of the holding or disposal of, or dealing in the Units and, as regards the Ineligible Overseas Shareholders, their receipt of the Cash Payment. It is emphasised that none of the Company, its Directors or any other parties involved in the Separate Listing and the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Units resulting from the holding or disposal of, or dealing in the Units.

7. **Lock-up arrangement**

It is proposed that GZI will enter into a lock-up arrangement for a period of six months following the Listing Date. Details of the lock-up arrangement will be set out in the Offering Circular.

8. **Conditions**

The Separate Listing will be conditional on, among other things, the following:

(a) Shareholders passing an ordinary resolution by way of poll at the EGM to approve the Separate Listing and other matters related to the Separate Listing;

(b) the Listing Committee granting the Listing Approval;

(c) the obligations of the underwriters under the underwriting agreements to be entered into between, among other things, the Company and the underwriters in respect of the Global Offering becoming and remaining unconditional and neither underwriting agreement being terminated in accordance with its terms or otherwise, on or before the dates and times to be specified therein, details of which will be set out in the Offering Circular;

(d) the condition precedents to draw down of the Facility Agreement *(Note)* being fulfilled or waived; and

(e) the receipt of the Authorisation.

If the foregoing and any other applicable conditions are not fulfilled or waived prior to the dates and times to be specified in the Offering Circular, the Global Offering will lapse and a notice will be published by the Company and/or GZI REIT as soon as practicable following such lapse.

The Separate Listing pursuant to the Proposed Spin-off and the Global Offering are subject to the foregoing conditions and are dependent on a number of factors (including, but without limitation, the entering into of definitive underwriting agreements and other legal documentation in respect of the Global Offering as well as market conditions at the relevant

time). Shareholders should note in particular that, as of the date of this circular, no underwriting agreement has been signed. It is further expected that such underwriting agreements, if signed, will be subject to, inter alia, customary conditions precedent. There is, therefore, no assurance that the Separate Listing and the proposed Global Offering will proceed.

Note: It is expected that the BVI Companies will fully draw down on the Loan Facility on the Listing Date and onward lend the funds to Holdco to fund the payment of the promissory note.

LISTING AND DEALINGS

The Shares will continue to be listed on the Stock Exchange after the implementation of the Separate Listing.

An application will be made to the SFC for the Authorisation and a formal application will be made to the Stock Exchange for the listing of, and permission to deal in, the Units to be issued pursuant to the Reorganisation Deed and to be issued in connection with the Global Offering, as set out in the Offering Circular to be issued by GZI REIT in due course (including any Units to be sold upon the exercise of the Over-allocation Option).

Subject to the granting of the Listing Approval and the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Units or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DISTRIBUTION

In order to satisfy the assured entitlement requirement under PN15, on 23 November 2005, the Board conditionally declared a special dividend of a sum to be determined by the Directors, being part of the amount standing to the credit of the Company's reserves, and which shall represent the value of such number of Units as will represent approximately 2.5% (assuming that the Over-allocation Option is exercised in full) to 2.9% (assuming that the Over-allocation Option is not exercised) of the Global Offering and approximately 1.7% of the total number of Units of GZI REIT immediately upon the Separate Listing to the Shareholders whose names appear on the register of members of GZI as at the close of business on the Record Date.

The Directors propose to distribute, by way of a distribution in specie, Units to the Qualifying Shareholders on the basis of 1 Unit for every 400 Shares held as at the close of business on the Record Date. The Units will be credited as fully paid and will rank *pari passu* in all respects with the Units in issue at the time of the Global Offering. Fractional entitlements to the Units will not be transferred under the Distribution but will be retained by the Company for sale in the market upon commencement of dealings in the Units on the Stock Exchange. The net proceeds derived therefrom after deduction of expenses will be retained for the benefit of the Company.

In order to alleviate the difficulties arising from the existence of odd lots of the Units, the Company has agreed to make arrangements for a broker to stand in the market to purchase and sell odd lots of Units held by the Qualifying Shareholders at the relevant market price per Unit. HSBC Securities (Asia) Limited will be appointed as the broker and will open a securities trading account for this purpose. Holders of odd lots of the Units who wish to take advantage of this facility should contact HSBC Securities (Asia) Limited during a period of three weeks, dates of which will be separately announced in due course. Qualifying Shareholders should note that successful matching of the sale and purchase of odd lots of Units is not guaranteed. Further details of the arrangement will be announced in due course.

For Ineligible Overseas Shareholders, if any, who will not be transferred any Units under the Distribution, the Units which such Shareholders would have been otherwise entitled to receive will be offered for sale by the Joint Global Coordinators under the International Offering. The net proceeds of the sale of such Units, after deducting applicable taxes, stamp duty, SFC transaction levy, Stock Exchange trading fee, investor compensation levy, if any, will be used to fund Cash Payments to the Ineligible Overseas Shareholders on the basis of the number of Units which the relevant Ineligible Overseas Shareholders would otherwise have been entitled to receive under the Distribution and the Offer Price.

The Distribution is subject to the satisfaction of the conditions of the proposed Separate Listing as set out in the sub-paragraph headed "Conditions" under the paragraph headed "Separate Listing" above.

OPTION

To allow each of the Qualifying Shareholders to have a choice as to whether to receive all of the Units to which he/she is entitled pursuant to the Distribution or to receive a Cash Payment in the alternative, it is proposed that each of them will be given an Option. **Each Qualifying Shareholder may only exercise the Option in respect of the whole of (but not part) (save in the case of HKSCC Nominees Limited, which may exercise the Option in respect of the whole or part of) his/her Units proposed to be transferred to him/her pursuant to the Distribution in consideration of a Cash Payment.** A form of election in respect of the Option (the "Form of Election") will be despatched to each Qualifying Shareholder on or after the date of the EGM.

Any Qualifying Shareholder who holds the Shares as a nominee, trustee or registered holder in any other capacity will not be treated differently from any other registered holder. Any beneficial owner of the Shares whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Distribution. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

The Qualifying Shareholders should also note the instructions and terms printed on the Form of Election.

1. **Indicative price range**

The indicative price range per Unit will be determined at a time closer to the Listing Date and will be made available by way of announcement (the "Announcement") around the despatch date of the Offering Circular. The calculation of the Cash Payment and any material changes, if any, to the information set out in this circular will also be set out in the Announcement. **You are advised to make your election only at a time when you are fully aware of the indicative price range and other information, if any, set out in the Announcement and/or the Offering Circular. If you choose to return the Form of Election prior to the Announcement and choose to make the election without the benefit of the indicative price range and other information, if any, it will nonetheless be valid and binding on you. You are also reminded to read through the Offering Circular before making any decision in relation to the election.** For the avoidance of doubt, the final price that you will receive per Unit, as a result of exercising the Option, will not be determined until after you have exercised your Option. Cheques for the Cash Payment (after deducting applicable taxes, stamp duty, SFC transaction levy, Stock Exchange trading fee and investor compensation levy, if any) are expected to be despatched within approximately 1 week following the commencement of trading in the Units.

2. **Conditions of the exercise of the Option**

The exercise of the Option is conditional upon: (a) the Distribution becoming unconditional; (b) the due execution and return of the Form of Election by the Qualifying Shareholders strictly in accordance with the instructions set out herein and on the Form of Election; and (c) the terms and conditions contained in the Form of Election.

The Option is not granted to the Shareholders in relation to whom the Directors, after reasonable enquiries, consider that the exclusion of such Shareholder is necessary or expedient either due to the legal restrictions under the laws of the relevant places or the requirements of the relevant body or stock exchange in those places in granting the Option. Therefore, the exercise of the Option is also conditional upon GZI being satisfied that the Shareholder(s) do not fall within the abovementioned category.

It is the responsibility of anyone outside Hong Kong wishing to exercise the Option to satisfy himself/herself, before so exercising the Option, as to the observance of the laws and regulations of all relevant territories, including the obtaining of any governmental or other consents and to pay any taxes and duties required to be paid in such territory in connection therewith. GZI reserves the right to refuse to accept a Form of Election if it believes that the exercise of the Option by the relevant Shareholder would violate the applicable securities or other laws or regulations of any jurisdiction.

GZI's decision in relation to whether all of the conditions of the exercise of the Option have been fulfilled will be conclusive. If, in the sole discretion of GZI, a Form of Election does not satisfy all of the conditions of the exercise of the Option, then the return of a Form of Election and, the Form of Election, will be treated as null and void and the relevant Shareholder will be deemed not to have elected to receive a Cash Payment instead of the Units proposed to be transferred to him/her pursuant to the Distribution. GZI will use its reasonable endeavours to inform the Shareholders if he/she falls within the abovementioned category.

3. **Procedure of the exercise of the Option**

If you are a Qualifying Shareholder and you wish to exercise the Option and receive a Cash Payment instead of the Units proposed to be transferred to you pursuant to the Distribution, please sign the Form of Election to be despatched on or after the date of the EGM and return it at the address and before the date and time set out in the Form of Election. If you wish to receive and retain such Units, please ignore the Form of Election and take no further action with them.

If the Registrar does not receive the Form of Election from you by the aforesaid date and time or if the Form of Election is not completed in accordance with the instructions printed herein and therein, you will be deemed not to have elected to receive a Cash Payment instead of the Units proposed to be transferred to you pursuant to the Distribution and hence not to receive a Cash Payment.

The Joint Global Coordinators will allocate any Units not taken up by Qualifying Shareholders and the Units which the Ineligible Overseas Shareholders would otherwise have been entitled to receive under the Distribution to the International Offering.

4. **Ineligible Overseas Shareholders**

The Offering Circular and the accompanying application forms will not be registered or filed under the securities or equivalent legislation of any jurisdiction other than Hong Kong. The Directors are of the view that it may, in the absence of compliance with registration or other special formalities in other jurisdictions, be unlawful or impracticable for GZI to distribute the Units to Ineligible Overseas Shareholders and/or to offer them the Option and/or to make the Cash Payment thereto, in each case pursuant to the Distribution.

GZI has used its reasonable endeavours to identify the Ineligible Overseas Shareholders in an effort to ensure that the Form of Election will only be despatched to the Qualifying Shareholders. However, no assurance is and can be given by GZI that by virtue of receiving the Form of Election, you are a Qualifying Shareholder.

If you are an Ineligible Overseas Shareholder and return a Form of Election, your Form of Election will be treated as null and void. GZI will use its reasonable endeavours to inform you should this arise.

Please note that arrangements will be made for the Units which the Ineligible Overseas Shareholders would otherwise have been entitled to receive under the Distribution, if any, to be offered for sale under the International Offering. The net proceeds of the sale, after deducting applicable taxes, stamp duty, SFC transaction levy, Stock Exchange trading fee and investor compensation levy, if any, will be used to fund the Cash Payments.

CLOSURE OF REGISTER OF MEMBERS

Based on the expected timetable, the register of members of the Company will be closed on 9 December 2005 and will be re-opened on 12 December 2005 for the purpose of determining the entitlements of the Shareholders to the Units under the Distribution. No transfer of the Shares may be registered during such book close period. In order to qualify for the Distribution, all transfers must be lodged with the Registrar by no later than 4:00 p.m. on 8 December 2005. However, if the Separate Listing is postponed, the Board may then determine another date(s) for closure of the register of members of the Company for the purpose of determining the entitlement to the Distribution and further announcement(s) will be made to inform the Shareholders and other investors in due course.

Shareholders should note that the implementation of the Distribution and Option shall be conditional upon the satisfaction of the conditions of the proposed Separate Listing as set out in the sub-paragraph headed "Conditions" under the paragraph headed "Separate Listing" above. If any of such conditions is not fulfilled by such time as is set out therein, the whole of the special dividend will lapse absolutely and unconditionally.

Shareholders should further note that the actual number of the Units distributed subject to the Distribution will vary depending on the actual number of issued Shares as at the Record Date.

REORGANISATION

GZI REIT will be a REIT to be established as part of an internal reorganisation of the GZI Group of part of its real estate portfolio. The reorganisation will be effected in the manner described below.

GZI REIT will be constituted when GZI REIT Asset Management Limited as the manager of GZI REIT and HSBC Institutional Trust Services (Asia) Limited as the trustee of GZI REIT enter into the Trust Deed.

Holdco will be incorporated and will be wholly-owned by the Trustee (acting in its capacity as the trustee of GZI REIT).

Reorganisation Deed

GZI and GCCD BVI will reorganise the interests in the Properties for the purposes of the establishment of GZI REIT with HSBC Institutional Trust Services (Asia) Limited as the trustee and with the Manager as the manager.

The Reorganisation Deed will be entered into by, among others, GCCD BVI (as vendor and the beneficial owner of the Issued Shares comprising the FE Issued Share, the KO Issued Share, the MK Issued Share and the PI Issued Share) and GZI (as the guarantor of GCCD BVI's obligations under the Reorganisation Deed) to transfer the Issued Shares to Holdco. Full Estates, Keen Ocean, Moon King and Partat are the respective registered owners of the City Development Plaza Units, the Victory Plaza Units, the Fortune Plaza Units and the White Horse Units.

Consideration

The Initial Consideration payable by Holdco under the Reorganisation Deed for the Issued Shares will be determined with reference to, among other things, the Combined Net Assets as at 31 October 2005 (but is subject to Adjustment as described below).

The Initial Consideration shall be satisfied in the following manner:

(a) by the issue of such Units in GZI REIT as will represent approximately 41.7% of the total Units to be issued immediately following the Global Offering to GCCD BVI or its nominee; and

(b) as to the balance by the execution and delivery of a promissory note by Holdco to GZI, which will be settled on or shortly after the Listing Date.

As at the Latest Practicable Date, the Initial Consideration is expected to be approximately HK$4,014 million.

In accordance with its rights under the Reorganisation Deed, GCCD BVI intends to nominate Dragon Yield as the company to which the Units forming part of the Initial Consideration are to be issued.

The Adjustment shall, in the event that the Listing Date taking place on or before a date to be agreed between GCCD BVI, the Holdco, the Manager, GZI REIT and GZI, be calculated and settled in accordance with the Reorganisation Deed.

Adjustment

Initial Adjustment

The Initial Adjustment shall be calculated as the sum of:

(a) the IPO proceeds (i.e., the gross proceeds of the issue of the Units under the Global Offering being equal to the number of Units issued under the Global Offering multiplied by the Offer Price);

(b) such portion of the Initial Consideration as is represented by the issue of Units by GZI REIT to Dragon Yield under the Reorganisation Deed; and

(c) the Loan Proceeds less any costs relating to the Facility Agreement agreed between GCCD BVI and Holdco

less the sum of:

(a) the Initial Consideration;

(b) the IPO Transaction Costs;

(c) the gross amount collected by White Horse Property Management Company from the tenants of the White Horse Units under their tenancies attributable to Partat in respect of the period from the Listing Date to 31 December 2005 (both dates inclusive) *(Note: Rents under the current lease agreements in the White Horse Units are paid by tenants to White Horse Property Management Company together with their property management fees. After the Listing Date, the rents rightfully belong to GZI REIT and its Unitholders while the property management fees have to be retained by White Horse Property Management Company to meet property management expenses)*; and

(d) HK$26,700,000, being an amount agreed to be borne by GCCD BVI for proposed renovation works at the White Horse Units.

The amount of the Initial Adjustment shall be paid:

(a) by Holdco to GCCD BVI or its nominee on the Listing Date, if the Initial Adjustment is a positive figure; and

(b) by GCCD BVI to Holdco on the Listing Date, if the Initial Adjustment is a negative figure. Payment by GCCD BVI of the amount of the Initial Adjustment to Holdco shall be effected by way of setting off the relevant amount against the principal amount of the promissory note so that the amount payable by Holdco to the Company pursuant to the terms of the promissory note shall be the amount representing the difference between the principal amount of the promissory note and the Initial Adjustment.

Combined Net Assets Adjustment

The Combined Net Assets Adjustment shall be the increase or reduction in the Combined Net Assets in the interval from the date of the Reorganisation Deed until the day immediately preceding the Listing Date, excluding (i) any fluctuations in the value of the Properties; (ii) any costs incurred in connection with the Global Offering and the Facility Agreement; and (iii) any other matter already taken into consideration in calculating the Initial Adjustment, and adopting the same accounting policies, principles, standards and practices.

If there is an increase in the Combined Net Assets, the amount of the increase shall be paid by Holdco to GCCD BVI or its nominee within four months after the Listing Date. If there is a decrease in the Combined Net Assets, the amount of the decrease shall be paid by GCCD BVI to Holdco within four months after the Listing Date.

The main purpose of the Initial Adjustment is to ensure that the Initial Consideration reflects the value of the Properties implied by the Offer Price attributable to GCCD BVI.

Final consideration

The final consideration shall be the Initial Consideration plus the Adjustment (if a positive number) or less the Adjustment (if a negative number). The Manager will announce the Adjustment and the final consideration upon determination thereof.

As at the Latest Practicable Date, the final consideration is expected to be no less than HK$3,600 million.

Warranties, representations and undertakings

Under the Reorganisation Deed, Holdco, the Manager and the Trustee will have the benefit of certain limited warranties, representations and undertakings ("Warranties") given by GCCD BVI and guaranteed by GZI.

The Warranties provide Holdco, the Manager and the Trustee a degree of comfort in relation to matters such as the assets and liabilities of the BVI Companies, the state of affairs of the business of the BVI Companies, title to the Issued Shares, title to the Properties, the absence of undisclosed liabilities attaching to the BVI Companies and certain other matters. All of the Warranties are given subject to the disclosures made by GCCD BVI or GZI to Holdco or the Manager (including, but not limited to those set out in the Offering Circular), are subject to certain limitations and will expire (i) 72 months after the Listing Date (in the case of Warranties relating to the share capital of the BVI Companies, taxation, title to assets, title to the Properties and compliance with certain regularised contractual obligations) and (ii), except in limited circumstances, 24 months after the Listing Date in all other cases.

After the expiry of such period, none of Holdco, the Manager and the Trustee will have any further recourse against either GCCD BVI or GZI under the Reorganisation Deed and risks associated with the acquisition of the Issued Shares (including, without limitation, in relation to title to the Properties), will be solely for the account of GZI REIT.

Under the Reorganisation Deed, the Trustee has the benefit of certain representations and warranties given by GZI in respect of, among other things, the due incorporation and status of Holdco.

The aggregate maximum liability of GCCD BVI and GZI in respect of all and any claims under the representations and warranties contained in the Reorganisation Deed as well as any claims made under or in connection with the Deed of Indemnity shall not exceed the final consideration for the transfer of the Issued Shares pursuant to the Reorganisation Deed.

Shareholders should note that the implementation of the Reorganisation described above is not conditional upon the Separate Listing or the proposed Global Offering.

The liability of the Trustee (if any) under the Reorganisation Deed shall be limited to the assets of GZI REIT.

RELATIONSHIP WITH THE GZI GROUP

The remaining business and operations of the GZI Group (on one hand) and GZI REIT (on the other hand) are managed by separate teams of management. The Trustee, will be a professional trustee independent of the GZI Group.

It is contemplated that the manager of GZI REIT will be a wholly-owned subsidiary of the Company and that Yi Cheng, which is 85.7% owned by the Company, and White Horse Property Management Company, which is 96.8% owned by the Company, will be the leasing agents for the Properties. The Leasing Agents have been managing the Properties and therefore, the Directors consider the continual appointment of the Leasing Agents is in the interest of GZI REIT since they have extensive experience in, among other things, managing the Properties.

1. Manager

The Manager has responsibility for managing the assets of GZI REIT for the benefit of the Unitholders. The Manager will set the strategic direction and risk management policies of GZI REIT and manage such assets in accordance with the stated investment strategy of GZI REIT and in accordance with compliance procedures set forth therein. The Manager will seek to be licensed by the SFC to conduct the regulated activity of asset management, as required by the SFC.

The Manager is a wholly-owned subsidiary of GZI, which is part of the Yue Xiu conglomerate. Yue Xiu is the flagship trading and investment vehicle of the Guangzhou Municipal People's Government in Hong Kong and the conglomerate has interests in a wide range of businesses and industries, including property investment and development, toll roads and bridges, newsprint, cement and ready mix concrete, high technology businesses, dry cell battery manufacturing, financial, stock broking and insurance services as well as hotel operations.

GZI, Yue Xiu's principal subsidiary, is listed on both the Stock Exchange and Singapore Exchange Securities Trading Limited. It is actively engaged in the development of commercial and residential properties primarily in Guangzhou and is also engaged in the provision of property management, lease management and marketing services to properties developed by the GZI Group or properties in which it has an interest.

Board and management of the Manager

The board of directors of the Manager is responsible for the overall governance of the Manager including establishing goals for management and monitoring the achievement of these goals. It will establish a framework for the management of GZI REIT, including a system of internal controls and business risk management processes.

The board of directors of the Manager is proposed to comprise six directors, three of whom will be independent non-executive directors.

The two proposed executive directors of the Manager are Mr. Liang Ningguang and Mr. Liu Yong Jie. A proposed non-executive director will be Mr. Liang You Pan. The three proposed independent non-executive directors of the Managers are Mr. Chan Chi On, Derek, Mr. Lee Kwan Hung, Eddie and Mr. Chan Chi Fai, Brian.

Directors

Mr. Liang Ningguang is proposed to be the chairman and executive director of the Manager. Mr. Liang is currently the vice chairman of Yue Xiu, with overall responsibility for its investment and asset management activities. He is an executive Director and deputy general manager of the Company and an executive director of GZI Transport Limited, both of which are companies listed on the Stock Exchange.

It is proposed that Mr. Liang Ningguang will resign from GZI before listing of the Units in order to dedicate more time to the Manager but will continue in his roles at Yue Xiu and GZI Transport Limited. The Board confirms that the proposed resignation will have no material adverse impact on the operation of the GZI Group.

Mr. Liu Yong Jie is proposed to be an executive director, the chief executive officer and one of the responsible officers of the Manager. Mr Liu is the deputy general manager of Yue Xiu but has no executive responsibility at Yue Xiu.

Mr. Liang You Pan is proposed to be a non-executive director of the Manager. He is currently the deputy general manager of GZI.

Mr. Chan Chi On, Derek, is proposed to be an independent non-executive director of the Manager. He is currently the managing director of Tai Fook Capital Limited.

Mr. Lee Kwan Hung, Eddie, is proposed to be an independent non-executive director of the Manager. He is a partner and the chief representative of Woo, Kwan, Lee and Lo's Beijing office.

Mr. Chan Chi Fai, Brian, is proposed to be an independent non-executive director of the Manager. He is currently the chief financial officer of the Parkview Group, which comprises two listed companies and a group of other companies with total assets exceeding HK$10 billion.

Senior executives

Mr. Don Lau is proposed to be the deputy chief executive officer and one of the responsible officers of the Manager. Mr. Lau also serves as the compliance manager of the Manager and is responsible for ensuring that the compliance manual adopted by the Manager, the REIT Code, the Trust Deed and the Listing Rules are adhered to. Additionally, he is responsible for managing GZI REIT's borrowings, cash flow, assets and liabilities and other financial matters. He will be invited to participate in the Manager's finance and investment committee to review and make recommendations on any financial matters as well as acquisitions and disposals of assets. Mr. Lau is concurrently the deputy general manager of the finance and accounts department of both Yue Xiu and GZI.

Mr. Cai Xiao Ping is proposed to be a deputy chief executive officer of the Manager and will also head its investment team. He will also oversee human resources and administrative functions of GZI REIT. He is currently the deputy general accountant of GCCD. It is proposed that Mr. Cai will resign from GCCD before listing of the Units. Mr. Cai is expected to spend 100.0% of his time in the management of GZI REIT.

Ms. Ko Yung Lai, Jackie is proposed to be the chief financial officer of the Manager. She will also oversee the information technology function of GZI REIT. She is currently the deputy general manager of the finance and accounts departments of both Yue Xiu and GZI and the director and financial controller of Yue Xiu Securities Co. Ltd.. It is proposed that Ms. Ko will resign from GZI and Yue Xiu (other than Yue Xiu Securities Co. Ltd.) before listing of the Units.

On the basis of the foregoing, the Directors confirm that the secondment of Mr. Don Lau will not affect the operation of the GZI Group and GZI REIT will be able to function independently from the GZI Group.

Sharing of non-management function

There will be some sharing of administrative and non-management functions between the Manager and the Group. Mr. Yu Tat Fung, who is the general counsel of the Group, will oversee the corporate services of the Manager, which will be staffed with two other members. Mr Alex Shiu, who is currently a senior manager of the capital management department of the Group, will be responsible for handling investor relation matters of GZI REIT.

The Board confirms that, other than disclosed above, all essential administrative functions would be carried out by GZI REIT without requiring the support of the Group.

Manager's fee

The following is a summary of certain fees payable by GZI REIT, at the maximum, to the Manager:

(i) in each Financial Year, a base fee of 0.3% per annum of audited value of the Deposited Property as at end of the Financial Year, payable semi-annually in arrears.

(ii) in each Financial Year, a service fee of 3.0% per annum of audited annual net property income, payable monthly in arrears.

(iii) a transaction fee of 1.0% of the consideration for the acquisition of any real estate (which, for the avoidance of doubt, shall not include any taxes, withholdings, out-of-pocket expenses or deductions incurred by GZI REIT in connection with any such acquisition) to form part of Deposited Property (except where the vendor of such real estate is the Manager or any of its connected persons, which would include property acquired under the Right of First Refusal granted by GZI to GZI REIT as described in the paragraph under "Deed of Right of First Refusal" in this circular), which shall be paid as soon as practicable after the relevant acquisition.

(iv) a transaction fee of 0.5% of the gross sale price (which, for the avoidance of doubt, shall not include any taxes, withholdings, out-of-pocket expenses or deductions incurred by GZI REIT in connection with any such sale) of the disposal of any part of Deposited Property comprising real estate (except where the purchaser of such real estate is the Manager or any of its connected persons), which shall be paid as soon as practicable after the relevant sale of real estate.

Any increase in the base fee, service fee, acquisition fee and disposal fee over the percentages set out above or any change to the structure of the Manager's remuneration will require Unitholders' approval by Special Resolution.

The Directors are of the view that the proposed Manager's fees are on normal commercial terms and in the interest of the GZI Group.

2. **Leasing Agents**

It is proposed for GZI REIT to appoint Yi Cheng to provide certain leasing, marketing and tenancy management services in respect of the City Development Plaza Units, the Victory Plaza Units and the Fortune Plaza Units. It is also proposed for GZI REIT to appoint White Horse Property Management Company for the provision of similar services in respect of the White Horse Units.

The Manager and each of Full Estates, Moon King and Keen Ocean have entered into a Tenancy Services Agreement with Yi Cheng while the Manager and Partat have entered into a Tenancy Services Agreement with White Horse Property Management Company.

(i) *Leasing Agents' fees*

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 to Yi Cheng of a monthly fee of 4.0% per annum of the Rental Income of the relevant Property. The Tenancy Services Agreement relating to the White Horse Units provides for payment to White Horse Property Management Company of a monthly fee of 3.0% per annum of the Rental Income of the White Horse Units.

The Leasing Agents 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 Agreement shall also satisfy the property management fees which they are entitled to receive from the relevant BVI Companies for any vacant units in the Properties under the property management arrangements described in the Offering Circular.

(ii) *Non-reimbursable expenses*

Under the Tenancy Services Agreements, the Leasing Agents will not be reimbursed for the following expenses, which shall be assumed and paid for by the Leasing Agents:

- costs and expenses under contracts entered into by the Leasing Agents with third party service providers delegates and agents for the provision of, among other things, supervision, maintenance, marketing and other services for the Properties, where such services are not directly provided by employees of the Leasing Agents;
- costs and expenses for utilities, including but not limited to, water, gas and electricity supply to the Properties, save where such costs and expenses are borne by the tenants thereof; and
- marketing and leasing commissions of third party service providers for the leasing of the Properties.

(iii) *Term of appointment*

The initial term of appointment of the Leasing Agents will be three years (unless earlier terminated in accordance with the provisions of the Tenancy Services Agreements). Six months prior to expiry of this term, each of the Leasing Agents may request to extend its appointment for a further three years on the same terms and conditions except that all fees payable to it may be revised to the prevailing market rates and provided that such extension shall be subject to Unitholders' approval.

The BVI Companies, on the recommendation of the Manager, will decide the prevailing market rates for the Leasing Agents' fees for the extension term and if the relevant Leasing Agent disagrees with the BVI Companies' decision on the prevailing market rates, the matter will be referred to an independent expert whose determination of such rates shall be final and binding on the parties.

Further details of the Tenancy Services Agreements will be set out in the Offering Circular.

3. **Conflicts of interests**

As both the Leasing Agents are members of the GZI Group and GZI is actively engaged in the development of commercial and residential properties primarily in Guangzhou as well as in the provision of leasing, marketing, tenancy management and property management services to properties developed by the GZI Group or other properties in which it has an interest, potential conflicts of interests may arise in relation to leasing and marketing opportunities. In order to address such potential conflicts of interests between GZI and GZI REIT, the following arrangements will be put into place:

i) *Segregation of certain operational functions*

The GZI Group will undergo an internal restructuring which will result in the Leasing Agents only be responsible for providing leasing and marketing services to GZI REIT's properties and another company within the GZI Group (the "GZI Property Manager") will be responsible for providing such services to properties not belonging to GZI REIT.

ii) *"Chinese Walls"*

"Chinese Wall" procedures will be put in place to ensure that there is segregation of information between the Leasing Agents and the GZI Property Manager. These will include having separate operating premises and IT systems, and separate reporting lines, for the Leasing Agents and the GZI Property Manager.

iii) *Contractual protection*

Contractual provisions in each of the Tenancy Services Agreements entered into between the Manager and Partat, Moon King, Full Estates or Keen Ocean, as the case may be, as well as the relevant Leasing Agent provide that:

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

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

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

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

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

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

GZI, being the parent company of the Leasing Agents, will provide an undertaking to GZI REIT that it will procure that the Leasing Agents will comply with the relevant provisions set out in the Tenancy Services Agreements in this regard.

(iv) *Transitional procedures*

The GZI Group will have a transitional period of six months from the Listing Date to complete the restructuring described above. The transitional period is required because:

- significant staff movement and re-allocation will be involved in the restructuring. Accordingly, a large number of employment contracts will have to be re-executed (and potentially re-negotiated) with those affected personnel; and

- it is also anticipated that various statutory employment-related provident funds would have to be re-allocated as a result of the significant staff movement, which will require substantial time to process.

It is also expected that as part of the restructuring, the business licence position for Yi Cheng and White Horse Property Management Company will need to be re-assessed to ensure that each of the Leasing Agents and the GZI Property Manager continues to hold all necessary licences for their respective businesses and functions, and where needed, further licensing applications may need to be made to the relevant PRC authorities.

As from the Listing Date, the “Chinese Wall” procedures will be put in place to segregate reporting lines and operational information. As soon as practicable thereafter, the personnel and IT systems of the Leasing Agents and the GZI Property Manager will also be physically segregated (i.e. separate office premises and systems). It is anticipated that such physical segregation will be achieved within two months after the Listing Date.

4. **On-going transactions**

There are anticipated to be various on-going transactions between GZI REIT, the Manager (acting on GZI REIT's behalf) and/or the BVI Companies (on the one hand) and members of the GZI Group (on the other hand) in the future. All such transactions will be on arms' length basis and normal commercial terms. Upon completion of the Separate Listing, GZI will be interested in approximately 30% to 40% of the Units (after the Distribution) and the accounts of GZI REIT will not be consolidated into GZI's accounts and hence GZI REIT will not become a subsidiary of GZI. Since GZI REIT will not become a subsidiary of GZI (after the Proposed Spin-off) and none of the substantial shareholders (as defined in the Listing Rules) of GZI will be directly interested in more than 10% of GZI REIT, transaction entered into between GZI and GZI REIT will not be treated as connected transaction for GZI under the Listing Rules.

DOCUMENTS RELATED TO THE SEPARATE LISTING

1. **Deed of Right of First Refusal**

Since the GZI Group and GZI REIT are both engaged in businesses in the real estate industry, therefore potential business conflicts may arise when, due to certain market conditions, the GZI Group has no other feasible options but to hold certain properties that are of similar nature and quality to those of GZI REIT for investment purposes. As mentioned above, the principal businesses of the GZI Group are, among other things, property development, management and investment while GZI REIT will engage in investments in income-producing real estate assets.

Having balanced the interests of the Shareholders and those of the Unitholders, in order to address the potential business conflicts which may arise and to provide support to GZI REIT in its initial years of establishment, GZI proposes to grant to GZI REIT, conditional on the Proposed Spin-off, a right of first refusal to acquire certain properties from the GZI Group in the event that GZI proposes to dispose, to a third party or parties, any completed Grade A office or commercial building located in Guangzhou, the PRC, which (i) fulfils (or would reasonably be regarded as fulfuilling) the investment criteria and property characteristics and is consistent (or would reasonably be regarded as being consistent) with the investment strategy of the Manager, for property investments by GZI REIT; (ii) is owned or developed by the GZI Group and in which the GZI Group has an ownership interest of 95.0% or more (and in circumstances in which GZI is able to negotiate and agree terms with the relevant joint venture party so as to extend the coverage of the Right of First Refusal granted by GZI to include the relevant property that is the subject of that joint venture); and (iii) has a value of US$20.0 million (or approximately HK$156.0 million) or more (as determined by an independent property valuer) (the "Relevant Property").

Properties which fall within the parameters of the right of first refusal granted by GZI include Yue Xiu New Metropolis (a commercial property of approximately 86,000 sq.m. being developed above the underground metro station on the No. 1 metro line in Guangzhou and which is expected to be completed in 2006), the commercial portion of Asian-Pacific Century Plaza (an integrated hotel and commercial property of approximately 223,900 sq.m. under development at Tian He North Road in Guangzhou and which is expected to be completed by 2008), the two tower blocks currently being constructed above the Victory Plaza podium (a property already owned by GZI REIT) and which are expected to be completed in 2007, as well as the commercial portion of the West Tower of the Mega-Twin Commercial Tower (an integrated office, retail and hotel complex of approximately 400,000 sq.m. under development in Zhujiang New Town in Guangzhou near the No.3 metro line and which is expected to be completed in 2009).

On the first occasion when GZI offers to GZI REIT a right of first refusal to acquire the entire building of the West Tower of Victory Plaza pursuant to the deed of Right of First Refusal, GZI shall also grant to GZI REIT a right of first refusal to acquire such number of car parks in Victory Plaza (the "Additional Car Parks") which will, when aggregated with GZI REIT's interests in the total construction area of the podium and the West Tower of Victory Plaza, enable GZI REIT to control more than 50% of the total construction area of Victory Plaza, provided that GZI REIT elects to acquire the West Tower of Victory Plaza and the completion of the sale and purchase of the Additional Car Parks shall take place simultaneously with, and conditional upon, the completion of the sale and purchase of the West Tower of Victory Plaza. If GZI REIT does not elect to acquire the Additional Car Parks or the sale and purchase of the Additional Car Parks is not duly completed, GZI can deal with the Additional Car Parks freely and is not subject to any selling restrictions under the deed of Right of First Refusal.

GZI will give written notice to the Manager and the Trustee of any proposed offer for sale of a Relevant Property to GZI REIT. If no election to purchase is made by GZI REIT through the Manager within 30 business days from the date of GZI's notice, or if the sale and purchase of the Relevant Property is not duly completed, then GZI can:

(i) sell the Relevant Property to any third party on terms no more favourable (from GZI REIT's perspective) than those offered to GZI REIT within 12 calendar months; or

(ii) retain the Relevant Property for investment purposes and the Right of First Refusal shall apply a new to such property in the event that GZI proposes to dispose of the same at a later date, which the Right of First Refusal is in subsistence, and the property satisfies the criterion of a Relevant Property at the relevant time.

If GZI elects to sell the Relevant Property to a third party, GZI will give to the Manager a written notice of the price and other principal terms on which the Relevant Property is proposed to be sold by GZI to the third party. The Manager (acting on behalf of GZI REIT) shall have 10 business days within which to object (by written notice to GZI) to such proposed sale solely on the grounds that it is on terms more favourable than those offered to GZI REIT (from the perspective of GZI REIT), failing which such right of objection shall lapse. If such terms are more favourable than those offered to GZI REIT (from GZI REIT's perspective), the Right of First Refusal shall apply anew to such property in the event that GZI proposes to dispose of the same at a later date, which the Right of First Refusal is in subsistence, and the property satisfies the criterion of a Relevant Property at the relevant time. If there is any dispute arising between GZI and the Manager (acting on behalf of GZI REIT) on the issue of whether the terms on which GZI proposes to sell the Relevant Property to the third party are more favourable than those offered to GZI REIT (from the perspective of the GZI REIT), the matter shall be referred to an independent valuer or other property consultant selected by agreement between the Manager and GZI. Such an independent valuer or other property consultant shall be requested to settle any matter in dispute and the decision of that independent valuer or other property consultant as to the matter in dispute shall, in the absence of fraud or manifest error, be final and binding on the Manager and GZI and such independent valuer or other property consultant shall be deemed to act as an expert and not as arbitrator. The costs of the independent valuer or other property consultant appointed, if any, shall be borne by GZI REIT and GZI in equal shares.

If the Manager (acting on behalf of GZI REIT) elects to acquire the Relevant Property offered by GZI pursuant to the deed of Right of First Refusal, the completion of the sale and purchase of the Relevant Property shall be conditional upon obtaining all requisite approvals and consents by GZI and GZI REIT, the satisfactory results on the completion of the due diligence review of the Relevant Property by the Manager and such other conditions as may be set out in the relevant sale and purchase agreement of the Relevant Property.

The Right of First Refusal to be granted by GZI to GZI REIT will commence on the Listing Date until the earliest of the following occurring:

(i) five years after the Listing Date;

(ii) the Units ceasing to be listed on the Stock Exchange (except for temporary suspension of trading); or

(iii) the entity which is the asset manager of GZI REIT ceasing for whatever reason to be a subsidiary of any member of the GZI Group or Yue Xiu and its subsidiaries.

Further, if GZI or any of its subsidiaries intends to enter into a joint venture in respect of a Relevant Property whereby GZI or, as the case may be, its subsidiary is to hold an ownership interest of more than 50.0% but less than 95.0%, and such Relevant Property is reasonably expected to be completed during the term of the Right of First Refusal, GZI will use all reasonable commercial endeavours to negotiate with the relevant joint venture party or parties such that the terms of the joint venture will enable it to include such Relevant Property within the scope of the Right of First Refusal.

The Board considers that the grant of the right of first refusal by the Company to GZI REIT is in the interests of both the Company and GZI REIT and will put forward to the Shareholders to consider such grant as part of the resolution to the Separate Listing.

In the event that GZI REIT elects to exercise the Right of First Refusal to acquire any property from the Company, the Company will comply with the requirements of Chapter 14 and other applicable requirements of the Listing Rules at the relevant time and will issue a separate announcement to disclose details of such a disposal at the relevant time (if so required by the Listing Rules).

2. **Deed of Indemnity**

GCCD BVI and GZI will execute the Deed of Indemnity in favour of Holdco (for itself and for each of the BVI Companies), the Manager and the Trustee under which GCCD BVI and GZI will undertake jointly and severally with each of the BVI Companies, Holdco and the Trustee to indemnify each BVI Company and Holdco against (among other things) all or any depletion or reduction in the value of their respective assets, or increase in the liabilities, loss or deprivation of any relief from taxation, of any of the BVI Companies or Holdco, as a result of or in connection with any claim by any revenue, customs, fiscal, statutory, governmental or other authority of the PRC or in any other part of the world, including but not limited to:

- the amount of any and all taxation falling on any of the BVI Companies or Holdco or in respect of the Properties resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, effected on or before Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any of the BVI Companies or Holdco of any amounts paid by GCCD BVI or GZI under the Deed of Indemnity;

- the amount of any and all fines or penalties imposed on any of the BVI Companies or Holdco by any revenue, customs, fiscal, statutory or governmental or other authority whatsoever in the PRC and any loss or damage suffered by any of the BVI Companies or Holdco resulting from the failure to stamp and/or register any of the tenancies in respect of the Properties as at certain specified dates;

- the amount of any and all taxation resulting from the transfer of the Property to any of the BVI Companies or Holdco or any transaction effected on or before the Listing Date;

- the amount of any and all fines or penalties imposed on any of the BVI Companies or Holdco by any statutory or governmental or other authority whatsoever in the PRC and any loss or damage suffered by any of the BVI Companies or Holdco resulting from any non-conformity of the Properties (or any part thereof) with applicable building regulations and, if rectification of such non-conformities is required by such authorities, the cost of such rectification and any losses, damages or costs which any of the BVI Companies or Holdco may incur in connection therewith; and

- all actions, claims, losses, damages, costs (including all legal costs), charges, expenses, interests, penalties or other liabilities which any of the BVI Companies or Holdco may reasonably and properly incur in connection with:

  — the investigation, assessment or the contesting of any such claim;

  — the settlement of any such claim;

  — any legal proceedings in which any of the BVI Companies or Holdco claims under or in respect of the deed and in which judgment is given in favour of any of the BVI Companies or Holdco; or

  — the enforcement of any such settlement or judgment.

The Deed of Indemnity will not cover any claim in respect of taxation or liability, among other things, to the extent that provision, reserve or allowance has been made for such taxation or claim in the combined management accounts of the BVI Companies as at the date immediately preceding the Listing Date.

No claims may be brought against GCCD BVI or GZI after the expiry of six years from the Listing Date and GCCD BVI and GZI shall not be liable in respect of a claim unless they have received written notice from Holdco prior to the expiry of six years from the Listing Date, giving reasonable details of the relevant claim.

FINANCIAL AND TRADING PROSPECTS OF THE GZI GROUP

As disclosed in the annual report of the GZI Group for the year ended 31 December 2004 (the "Annual Report"), the GZI Group's turnover increased by approximately 15.3% to approximately HK$4,526.7 million, of which income from properties business accounted for approximately 63.8% of the turnover. Total sales of properties in Guangzhou and Hong Kong amounted to approximately HK$1,987.2 million representing approximately 43.9% of the GZI Group's turnover. Further, as disclosed in the interim report of the GZI Group for the six months ended 30 June 2005 (the "Interim Report"), the GZI Group's turnover amounted to approximately HK$1,588.2 million, of which income from properties business accounted for approximately 48.3% of the turnover while income derived from the operations in the PRC accounted for approximately 90% of the turnover. Profit attributable to shareholders of GZI for the six months ended 30 June 2005 amounted to approximately HK$132.4 million.

As disclosed in the Interim Report, the gearing ratio (being the total bank borrowings divided by total capitalization) of the GZI Group as at 30 June 2005 was approximately 41%.

As at 30 June 2005, the GZI Group had approximately 7,250 employees of whom approximately 7,120 employees were primarily engaging in the properties, toll roads and newsprint businesses. The GZI Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. The GZI Group has also adopted share option schemes which award its employees according to performance of the GZI Group and individual employees.

As disclosed in the Interim Report, the GZI Group's bank loans as at 30 June 2005 amounted to approximately HK$5,341 million (the "Bank Loans"), of which approximately HK$2,980 million were denominated in Hong Kong dollars with the remaining principally denominated in RMB. Further, approximately HK$1,597 million out of the Bank Loans are repayable within one year as at 30 June 2005 while over 50% of the Bank Loans are repayable in the third to fifth year from 30 June 2005. Such bank loans bore interest ranging from approximately 2.8% to 5.9% per annum. In addition, the GZI Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

As at 30 June 2005, the GZI Group had provided approximately HK$126 million in respect of the guarantee for mortgage facilities granted to certain buyers of the GZI Group's properties and commitments under operating leases amounted to approximately HK$341 million.

UNAUDITED FINANCIAL INFORMATION OF THE PROPERTIES

The table below sets out the unaudited financial information of the Properties for the two years ended 31 December 2004 and the six months ended 30 June 2005:

For the year ended 31 December 2003	**White Horse Units** *HK$'000*	**Fortune Plaza Units** *HK$'000*	**City Development Plaza Units** *HK$'000*	**Victory Plaza Units** *HK$'000*	**Total** *HK$'000*
Turnover — rental income and management fee income					
— Retail	88,263	—	6,754	7,580	102,597
— Office	1,491	150	25,157	—	26,798
	89,754	150	31,911	7,580	129,395
Other gains — net	11,154	10	476	91	11,731
Direct outgoings	(31,796)	(1,205)	(3,194)	(3,881)	(40,076)
Other operating expenses	—	(608)	(1,065)	(1,254)	(2,927)
Fair value gains/(losses) on investment properties	(3,154)	205,914	(27,103)	70,684	246,341
Profit before taxation	65,958	204,261	1,025	73,220	344,464
Income tax expenses					(109,608)
Profit for the year					234,856

The above amounts have been translated into HK$ at an exchange rate of RMB1.07 = HK$1 for illustration purpose only.

For the year ended 31 December 2004	**White Horse Units** *HK$'000*	**Fortune Plaza Units** *HK$'000*	**City Development Plaza Units** *HK$'000*	**Victory Plaza Units** *HK$'000*	**Total** *HK$'000*
Turnover — rental income and management fee income					
— Retail	103,175	979	6,977	24,397	135,528
— Office	1,562	8,063	26,927	—	36,552
	104,737	9,042	33,904	24,397	172,080
Other gains — net	8,072	255	648	506	9,481
Direct outgoings	(35,309)	(6,623)	(4,187)	(4,891)	(51,010)
Other operating expenses	—	(705)	(730)	(1,364)	(2,799)
Fair value gains/(losses) on investment properties	53,705	8,411	(119,626)	62,617	5,107
Profit before taxation	131,205	10,380	(89,991)	81,265	132,859
Income tax expenses					(44,273)
Profit for the year					88,586

The above amounts have been translated into HK$ at an exchange rate of RMB1.07 = HK$1 for illustration purpose only.

For the six months ended 30 June 2005	**White Horse Units** *HK$'000*	**Fortune Plaza Units** *HK$'000*	**City Development Plaza Units** *HK$'000*	**Victory Plaza Units** *HK$'000*	**Total** *HK$'000*
Turnover — rental income and management fee income					
— Retail	65,105	4,145	2,471	3,363	75,084
— Office	811	6,175	10,574	—	17,560
	65,916	10,320	13,045	3,363	92,644
Other gains — net	5,385	127	163	188	5,863
Direct outgoings	(16,050)	(4,546)	(2,787)	(3,664)	(27,047)
Other operating expenses	—	(1,026)	(748)	(672)	(2,446)
Fair value gains on investment properties	437,944	143,899	12,444	—	594,287
Profit before taxation	493,195	148,774	22,117	(785)	663,301
Income tax expenses					(209,083)
Profit for the period					454,218

The above amounts have been translated into HK$ at an exchange rate of RMB1.07 = HK$1 for illustration purpose only.

Since the BVI Companies only became the beneficial owners of the Properties for accounting purposes in September and October 2005, thus no profit was recorded during the period reported.

FINANCIAL EFFECTS OF THE SEPARATE LISTING

The aggregate carrying value of the Properties as at 30 June 2005 amounted to approximately HK$3,204 million (which amount has been translated into HK$ at an exchange rate of RMB1.04 = HK$1 for illustration purpose only) and the aggregate appraised value of the Properties as at 30 September 2005 amounted to approximately HK$4,005 million.

As mentioned in the sub-paragraph headed "Intended use of proceeds" under the paragraph headed "Separate Listing" above, net cash proceeds (subject to the Offer Price and relevant expenses) to be received by GZI is expected to be approximately HK$2,400 million to HK$3,200 million. It is the present intention of the Directors to use such net cash proceeds from the Separate Listing for repayment of bank borrowings, thereby reducing gearing level and interest expenses and improving the liquidity and financial position of GZI.

According to the Interim Report, net asset value (after minority interests) of GZI amounted to approximately HK$7,739 million as at 30 June 2005. In addition, the gearing (being bank borrowings (excluding bank overdrafts) divided by net asset value (after minority interests) and bank borrowings, calculated in consistent with the annual report of GZI in 2004) of GZI was approximately 41% as at 30 June 2005.

As a result of the Separate Listing, financial results of the Properties will not be consolidated into the accounts of GZI, thereby the total assets value of GZI will be decreased. GZI will be able to repay certain bank borrowings with the proceeds to be received by GZI under the Separate Listing, thereby decreasing the liabilities of the GZI Group. Upon the Separate Listing, GZI will receive dividend payments (if any) from GZI REIT. Since it is not possible to forecast the financial results of GZI, GZI REIT or the Properties, projection of such effect is not practical. Based on the unaudited results of the Properties, net profit derived from such Properties amounted to approximately HK$89 million and HK$454 million for the year ended 31 December 2004 and the six months ended 30 June 2005 respectively.

Immediately upon completion of the Separate Listing, GZI will be able to recognise a gain on disposal of the Properties determined upon, among other things, the final Offer Price of the Units, of approximately HK$1,500 million to HK$2,100 million. Such gain will be derived mainly from the fair value gain from the revaluation of the Properties (as at 30 September 2005) with reference to the aggregate carrying value of the Properties prior to the Proposed Spin-off and the release of deferred taxation on the Properties upon completion of the Separate Listing.

EGM

A notice convening the EGM to be held at 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong on 10 December 2005 at 9:30 a.m. is set out on pages 278 to 281 of this circular.

Form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed forms of proxy in accordance with the instructions printed thereon and return the same to the Registrar at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong 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 adjournments thereof. Completion and return of the respective form of proxy will not preclude you from attending and voting in person at the EGM or any adjournments thereof should you so desire.

At the EGM, a poll may be demanded by the chairman; or not less than five members having the right to vote at the relevant meeting; or a member or members representing not less than 10% of the total voting rights of all members having the right to vote at the relevant meeting; or a member or members holding Shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the Shares conferring that right.

RECOMMENDATIONS

The Directors (including the independent non-executive Directors) are of the view that the Reorganisation, the Distribution, the Option and the Separate Listing, are in the interests of the Company and the Shareholders and accordingly recommend the Shareholders to vote in favour of the ordinary resolution to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing at the EGM as set out in the notice of EGM on pages 278 to 281 of this circular. Yu Ming, the independent financial adviser to the Shareholders, considers that the terms and conditions of the Reorganisation Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are fair and reasonable so far as the Company and the Shareholders are concerned and that the Reorganisation Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are in the interests of the Company and the Shareholders as a whole. Accordingly, Yu Ming recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing. The text of the letter from Yu Ming containing its advice and the principal factors and reasons taken into account as regards, among other things, the Reorganisation, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing is set out on pages 50 to 71 of this circular.

GENERAL

The Hongkong and Shanghai Banking Corporation Limited has been appointed as the listing agent and, together with Citigroup Global Markets Asia Limited and DBS Bank Ltd. Hong Kong Branch, as the joint global co-ordinators and joint bookrunners of the Global Offering. The Board expects that the Offering Circular will be despatched to the Qualifying Shareholders in due course (subject to the legal restrictions under the relevant laws and regulations in the relevant overseas jurisdictions).

Should the net cash proceeds to be received by GZI be lower than the amount stated in this circular due to (among other things) the change in the Offer Price of the Units during the Global Offering, or other situations where, in the opinion of the Company and its professional advisers, there is material variation to the terms stated in this circular affecting the basis on which Shareholders' approval was obtained pursuant to the terms as stated in this circular, GZI will (among other things) release a supplemental circular and to seek Shareholders' approval for such revision.

ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute and offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

In connection with the Global Offering, the price of the Units may be stabilised in accordance with the SFO. Details of any intended stabilisation and how it will be regulated under the SFO will be contained in Offering Circular.

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
By Order of the Board
Guangzhou Investment Company Limited
Ou Bingchang
Chairman

越秀投資有限公司
GUANGZHOU INVESTMENT COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 123)

25 November 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE SEPARATE LISTING OF GZI REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

We refer to the circular to the Shareholders dated 25 November 2005 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings given to them in the definition section of the Circular.

In compliance of the Listing Rules, we have been appointed by the Board to advise the Shareholders in relation to the Separate Listing which constitutes a major transaction for the Company under the Listing Rules. In this connection, Yu Ming has been appointed as an independent financial adviser to advise on whether the terms and conditions of (among other things) the Reorganisation Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are fair and reasonable so far as the Company and the Shareholders are concerned and the Reorganisation Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are in the interests of the Company and the Shareholders as a whole. Details of, and the reasons for the Reorganisation, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing together with the actions to be taken by the Shareholders are contained in the Letter from the Board set out on pages 11 to 48 of the Circular.

As the members of the Independent Board Committee, we have discussed with the management of the Company as to the reasons for the Reorganisation, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing. We also wish to draw your attention to the letter of advice from Yu Ming set out on pages 50 to 71 of the Circular. We have also discussed with Yu Ming as to the basis upon which its advice has been given to us. We have also noted the letter and the advice contained therein and have considered, amongst others, the various factors contained in such letter. In our opinion, the terms and conditions of the Reorganisation Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are fair and reasonable so far as the Company and the Shareholders are concerned and the Reorganisation Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are in the interests of the Company and the Shareholders as a whole. Accordingly, as the members of the Independent Board Committee, we recommend the Shareholders to vote in favour of the ordinary resolution which will be proposed at the EGM to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing by way of poll.

Yours faithfully,
Independent Board Committee of
Guangzhou Investment Company Limited
Mr. Yu Lup Fat Joseph
Mr. Lee Ka Lun   Mr. Lau Hon Chuen, Ambrose

The following is the text of a letter of advice received from Yu Ming to the Independent Board Committee and the Shareholders in respect of the Reorganization Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing, and is prepared for inclusion in this circular.

YU MING INVESTMENT MANAGEMENT LIMITED
ROOM 1001, 10/F, AON CHINA BUILDING, 29 QUEEN'S ROAD CENTRAL, HONG KONG

DATE 25th November, 2005

To the Independent Board Committee and the Shareholders
Guangzhou Investment Company Limited
24/F, Yue Xiu Building
160-174 Lockhart Road
Wanchai
Hong Kong

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO
THE SEPARATE LISTING OF
GZI REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

INTRODUCTION

The Board announced on 24th November, 2005 that it is currently considering the Proposed Spin-off and Separate Listing of GZI REIT. An application will be made to the SFC for the Authorization and, a formal application will be made by GZI REIT to the Stock Exchange for the proposed listing of the Units on the Main Board. The Global Offering of Units proposed comprises an offer for subscription by way of public offer in Hong Kong and an international placement to professional, institutional and other investors. The Distribution and the granting of the Option to Qualifying Shareholders is also proposed.

We have been appointed to advise you in respect of the Separate Listing of GZI REIT, details of which are set out in the circular to the Shareholders dated 25th November, 2005 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Separate Listing will result in the separate listing of the Units on the Main Board following the Global Offering. Immediately following the Distribution and the completion of the Global Offering, the GZI Group's stake in GZI REIT will be reduced from 100 per cent to approximately 40 per cent (assuming that the Over-allocation Option is not exercised) and approximately 30 per cent (assuming that the Over-allocation Option is exercised in full). Accordingly, it is intended that approximately 60 per cent of the Units of GZI REIT as enlarged by the Global Offering will initially be made available for subscription by way of a public offer in Hong Kong and an international placement to professional, institutional and other investors. For the purpose of the Listing Rules, such issue of the new Units will give rise to a deemed disposal by the Company under Rule 14.29 of the Listing Rules. As such, the Separate Listing is subject to the approval of the Shareholders.

Prior to the Separate Listing, the GZI Group will implement the Reorganization, where, among other things, the entire interests in the BVI Companies will be transferred to Holdco, which upon incorporation, will be a wholly-owned subsidiary of GZI REIT for the Initial Consideration as detailed in the section headed "Reorganization" in the Letter from the Board.

The Company intends to apply substantially all the net cash proceeds from the Separate Listing, expected to be no less than approximately HK$2,400 million (assuming that the Over-allocation Option is not exercised), to repay the outstanding bank loans of the GZI Group with an aim to improve the capital structure and to reduce interest expenses.

In recognition of the requirement to provide assured entitlements to shareholders of Hong Kong listed companies under the Listing Rules in connection with the Separate Listing proposal and subject to, inter alia, the Listing Approval, it is proposed that Units representing approximately 2.5 per cent (assuming that the Over-allocation Option is exercised in full) to 2.9 per cent (assuming that the Over-allocation Option is not exercised) of the Units available for subscription under the Global Offering or approximately 1.7 per cent of the total number of Units in issue immediately following the listing of GZI REIT, will be distributed to Qualifying Shareholders through the Distribution on a pro-rated basis. Qualifying Shareholders will receive one Unit for every integral multiple of 400 existing Shares held by them at the close of business on the Record Date. Qualifying Shareholders will be granted the Option, which, upon exercising, the Qualifying Shareholders are to be entitled to the Cash Payment instead of the Units. Ineligible Overseas Shareholders will be entitled to the Cash Payment only but not the Option.

We have been appointed as an independent financial adviser to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms and conditions of the Reorganization Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are fair and reasonable and whether the Reorganization Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote on the resolutions to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing at the EGM.

We have not considered the tax consequences of the Separate Listing on the Shareholders since these are circumstances peculiar to the individual Shareholders. In particular, the Shareholders who are subject to overseas taxation on securities dealing should consider their own tax position with regard to the Distribution of the Units and, if in doubt, should consult their own professional advisers.

It is not within our terms of reference to advise the Qualifying Shareholders as to whether or not they should retain the Units to be received under the Distribution or to exercise the Option for the Cash Payment. In this respect, the Qualifying Shareholders are recommended to consult their own professional advisers and refer to the information contained in this Circular and the Offering Circular.

It is not within our terms of reference to advise the Qualifying Shareholders as to whether or not they should apply for the Units under the Global Offering, nor is it within our terms of reference to consider or advise on the pricing of the Units in the Global Offering and on the timing of the making of the Global Offering in relation to the prevailing market conditions or at all. In this respect, the Qualifying Shareholders are recommended to consult their own professional advisers and refer to the information contained in this Circular and the Offering Circular.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information, opinions and representations provided to us by the Directors. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information, opinions and representations which have been provided by the Directors for which they are solely responsible are, to the best of their knowledge, true and accurate at the time they were made and continue to be so on the date of this letter.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and the representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors, nor have we conducted an independent investigation into the business and affairs of the GZI Group and GZI REIT.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background to and reasons for the Separate Listing

Listed on the Main Board since December 1992, the GZI Group is actively engaged in the development of commercial and residential properties primarily in Guangzhou and is also engaged in the provision of property management, lease management and marketing services to properties developed by the GZI Group or properties in which it has an interest. Apart from the foregoing, the GZI Group is also engaged in newsprints manufacturing and toll roads and bridges operations principally in the PRC.

The Separate Listing of GZI REIT represents a unique fund raising alternative to the GZI Group. The Separate Listing will create distinct business strategy for the GZI Group's current holdings in Grade "A" office and prime commercial investment properties. The basic operative of a REIT has been incorporated in the sub-section headed "Description of a REIT" in the Letter from the Board.

The Properties proposed to be transferred to Holdco are as follows:

(i) The City Development Plaza Units, at City Development Plaza, a 28-storey Grade A commercial building, located at Nos. 185, 187 and 189 Ti Yu Xi Road, Tian He District, Guangzhou, the PRC;

(ii) The Fortune Plaza Units, at Fortune Plaza, a Grade A commercial complex, is located at Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, the PRC;

(iii) The Victory Plaza Units, Victory Plaza, a prime shopping centre, is located at No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, the PRC; and

(iv) The White Horse Units, White Horse Building, a 10-storey commercial wholesale centre for garment, is located at Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, the PRC.

Together, the Properties comprise approximately 160,651 square metres of retail, office, shopping and wholesale space. The Properties represent all the investment properties held by the GZI Group as at the Latest Practicable Date which are classified as Grade “A” office and prime commercial properties that meet the stated investment objectives of GZI REIT.

Subsequent to the Separate Listing, the primary objective of GZI REIT is to own and invest in a diverse portfolio of sustainable income producing retail properties, office buildings and commercial buildings for long-term investment purposes. Unless the Unitholders approve otherwise by a Special Resolution at a meeting convened by the Manager, investment will initially be in properties in Guangdong Province. In accordance with REIT Code, GZI REIT is prohibited from investing in vacant land or engaging in property development activities. On the other hand, the GZI Group will focus on residential and commercial property development primarily in Guangzhou and is also engaged in the provision of property management, lease management and marketing services to properties developed by the GZI Group or properties in which it has an interest. In addition, the GZI Group will continue to engage in toll roads and bridges operations and newsprints production. The Separate Listing enables the GZI Group to reallocate human and financial resources for its core businesses, improve financial flexibility through the reduction of debt while keeping significant interests in GZI REIT. The GZI Group will still have interests in certain properties including residential properties, shopping malls, offices, car parks, other commercial properties and a variety of shops which do not fit into the stated investment objectives of GZI REIT.

The GZI Group will benefit financially from the Separate Listing, including but not limited to increase in net asset value, reduction in gearing and interest expenses and improved working capital, which will be detailed in later section. In the long term, such financial flexibility will enable the GZI Group to act responsively to new investment opportunities as they arise.

On the other hand, GZI REIT will be able to tap the capital market directly subsequent to the Separate Listing, which is essential in funding future acquisitions of properties. Moreover, the clearer profile of the GZI Group will allow its market price to keep up with its intrinsic value more closely as operational and financial transparency improve. As the GZI Group intends to retain a holding of approximately 30 per cent (assuming the Over-allocation Option is exercised in full) to approximately 40 per cent (assuming the Over-allocation Option is not exercised) of GZI REIT, it will continue to benefit from the prospects of the spun-off business. In this respect, we believe that the Separate Listing will be of clear commercial benefits to both the GZI Group and GZI REIT.

At the same time, the Manager proposes to charge a fee income from the management of GZI REIT which is estimated to be approximately HK$22 million per annum. Furthermore, the Leasing Agents propose to charge a fee for certain tenancy management, lease management, marketing and marketing coordination services in relation to the Properties. The estimated fee for the Leasing Agents is approximately HK$12 million per annum. The fee income of the Manager and the Leasing Agents will be consolidated into the profit and loss account of the GZI Group.

Based on the above, we believe the Separate Listing will facilitate the growth of each of the GZI Group and GZI REIT and is in the interests of the Shareholders and the Company as a whole.

2. **Relationship between the GZI Group and GZI REIT subsequent to the Separate Listing**

(i) *Delineation between the business retained by the GZI Group and the business of GZI REIT*

Though the GZI Group and GZI REIT will continue to engage in property related businesses after the Separate Listing, the investment objectives of the two entities are fundamentally different. The investment portfolio of the GZI Group will include residential properties, shopping malls, offices, car parks, other commercial properties and a variety of shops. In addition, the focus of the GZI Group will be on development and redevelopment of residential properties rather than long-term investments in prime office and commercial properties. In contrast, GZI REIT will only acquire sustainable income producing properties which are usually office, retail and other commercial buildings for long term investment purposes. We believe that the business retained by the GZI Group is distinct from that of GZI REIT which mitigates any potential competition between the GZI Group and GZI REIT. From a strategic perspective, the delineation in business of the GZI Group and GZI REIT is in the interest of the Shareholders and the Company as a whole.

(ii) *GZI REIT is to function independently from the GZI Group*

The relationship between the GZI Group and GZI REIT subsequent to the Separate Listing will have four main aspects. Firstly, GZI REIT will be managed by the Manager while certain tenancy, leasing and marketing aspects of the Properties will be handled by the Leasing Agents of the GZI Group. Secondly, the Company has granted the Right of First Refusal to GZI REIT on properties held by the GZI Group that meet certain requirements. Thirdly, GZI has executed the Deed of Indemnity in favour of GZI REIT. Finally, the GZI Group plans to hold approximately 30 per cent (assuming the Over-allocation Option is exercised in full) to approximately 40 per cent (assuming the Over-allocation Option is not exercised) interest in GZI REIT which is subject to a lock-up arrangement.

a. Manager and Leasing Agents

Subsequent to the Separate Listing, the underlying assets of GZI REIT are to be owned and administered by a trustee, whereas the Manager is to be responsible for managing the assets for the benefit of the Unitholders. The Manager will set the strategic direction and risk management policies of GZI REIT and manage such assets in accordance with the stated investment strategy of GZI REIT. At the same time, the Manager will appoint the Leasing Agents to provide certain tenancy management, lease management as well as marketing and marketing co-ordination services.

As advised by the Directors, the board of the Manager will comprise six directors (namely, two executive directors, one non-executive director and three independent non-executive directors). Among the two executive directors, only one, Mr. Liang Ningguang, has direct role in the GZI Group by currently assuming the position of executive Director and deputy general manager, which constitutes potential conflict of interest in relation to management and leasing issues of the GZI Group and GZI REIT. To mitigate the conflict, it is proposed that Mr. Liang Ningguang will resign from the Board before the listing of the Units and yet maintain his role at Yue Xiu and GZI Transport Limited. Save for him, the other executive director of the Manager will not engage in the property division of the GZI Group. In this regard, the Board and the board of the Manager will have no common executive director, the conflict of interest between the GZI Group and GZI REIT caused by the board composition of the Manager will be minimal and thus the arrangement is fair and reasonable and is in the interest of the Shareholders and the Company as a whole.

As far as potential conflict of interest between the GZI Group and GZI REIT in the operating level is concerned, it has been detailed in paragraph three under the section headed “Relationship with the GZI Group” in the Letter from the Board, a series of arrangements to address the issue including an internal reorganization which will result in the segregation of certain operational functions between the Leasing Agents and the GZI Property Manager as well as the implementation of the Chinese Walls policy between the Leasing Agents and the GZI Property Manager. Other contractual measures will be put in place which, among other things, the Leasing Agents endeavour to avoid competition between the GZI Group and GZI REIT by (i) referring all business proposals which the relevant Leasing Agents, acting reasonably and in good faith, consider are or are likely to be in competition with any member of the GZI Group, to the leasing division of the Manager for vetting and confirmation before the relevant Leasing Agent proceeds with such proposals or opportunities; or (ii) sub-contracting to a third party leasing agent independent of the GZI Group to implement the relevant business proposal. In this regard, the compliance measures adopted by the Manager and the Leasing Agents meet the standard prescribed by the guidelines set by the SFC (as stipulated in “The Management, Supervision and Internal Control Guidelines for Persons Registered or Licensed by the SFC”) in that important duties and functions should be segregated in order to avoid opportunities for abuses or the overlooking of errors. Therefore, we are of the view that adequate measures will be in place to mitigate any potential conflict of interests on an operational level between the GZI Group and GZI REIT and such measures are fair and reasonable and are in the interest of the Shareholders and the Company as a whole. Such measures will be in place in six months from the Listing Date.

In order to assess whether the management fee paid by GZI REIT to the Manager, a wholly-owned subsidiary of the Company, is reasonable, we refer to the management fee charged by all listed REITs in the Singapore Exchange as shown in the table below. We have selected the Singapore Exchange since it is an English-language based emerging market in the Asia-Pacific Region similar to that of Hong Kong.

REIT	Base fee	Performance/ Service fee	Acquisition fee	Divestment fee
Ascendas REIT	0.5 per cent p.a. of the value of the deposited property	0.1 per cent p.a. of the deposited property provided that the annual growth in distribution per unit exceeds 2.5 per cent, and an additional 0.1 per cent p.a. if the growth of distribution per unit exceeds 5 per cent	1 per cent of the purchase price of the prospective properties, with no fee payable for the acquisition of the initial property portfolio	0.5 per cent of the sale price of the divested property
CapitaCommercial Trust	0.1 per cent p.a. of the value of the deposited property	5.25 per cent p.a. of the net investment income before management fees and non-operating income (e.g. revaluation of properties)	1 per cent of the purchase price of the prospective properties, with no fee payable for the acquisition of the initial property portfolio	0.5 per cent of the sale price of the divested property
CapitaMall Trust	No more than 0.25 per cent p.a. of the property value	No more than 2.85 per cent p.a. of the gross revenue	No more than 1 per cent of the purchase price of the prospective properties	0.5 per cent of the sale price of the divested property
Fortune REIT	0.3 per cent p.a. of the property value	3 per cent p.a. of the net property income	1 per cent of the purchase price of the prospective properties, with no fee payable for the acquisition of the initial property portfolio	0.5 per cent of the sale price of the divested property
Mapletree Logistics Trust	0.5 per cent p.a. of the value of the deposited property	3.6 per cent p.a. of the net property income before accounting for the performance fee	1 per cent of the purchase price of the prospective properties, with no fee payable for the acquisition of the initial property portfolio	0.5 per cent of the sale price of the divested property

REIT	Base fee	Performance/ Service fee	Acquisition fee	Divestment fee
Macquarie MEAG Prime REIT	0.5 per cent p.a. of the value of trust property	Tie 1: 5 per cent of the amount by which the accumulated return of the trust index exceeds the accumulated return of the benchmark index, multiplied by the equity market capitalization of the REIT Tier 2: only the accumulated return of the trust index in excess of 2 per cent p.a. (1 per cent for each half year) above the accumulated return of the benchmark index. This tier of the fee is calculated at 15 per cent of the amount by which the accumulated return of the trust index is in excess of 2 per cent above the accumulated return of the benchmark index, multiplied by the equity market capitalization of the REIT	1 per cent of the purchase price of the prospective properties, with no fee payable for the acquisition of the initial property portfolio	0.5 per cent of the sale price of the divested property
Suntec REIT	0.3 per cent p.a. of the value of the deposited property	4.5 per cent p.a. of the net property income	1 per cent of the purchase price of the prospective properties, with no fee payable for the acquisition of the initial property portfolio	0.5 per cent of the sale price of the divested property

REIT	Base fee	Performance/ Service fee	Acquisition fee	Divestment fee
GZI REIT	**0.3 per cent p.a. of the value of the Deposited Property**	**3.0 per cent p.a. of Net Property Income**	**1 per cent of the gross purchase price of the prospective properties, with no fee payable for the acquisition of the Properties and properties which are acquired pursuant to the Right of First Refusal in future, or if such vendor is a connected person of the Manager**	**0.5 per cent of the gross sale price of the divested property. No fee if the buyer is a connected person of the Manager**

Source: Investment research report by an international brokerage house dated June 2005 and the respective prospectus

Note: Deposited property is defined as the value of total assets of the corresponding REIT.

According to the above table, the Manager's remuneration, in terms of the base fee, the performance fee, the acquisition fee and the divestment fee are all within the range of the fees charged by the REITs listed in Singapore and therefore we believe the Manager will not be under-remunerated. In this regard, the proposed fees paid by GZI REIT to the Manager are fair and reasonable and are in the interest of the Shareholders and the Company as a whole.

Besides, we have also assessed the reasonableness of Leasing Agent's fees payable by GZI REIT to the Leasing Agents. It is proposed for the Manager to appoint Yi Cheng to provide certain tenancy management, lease management as well as marketing and marketing co-ordination services in respect of the City Development Plaza Units, the Victory Plaza Units and the Fortune Plaza Units. It is also proposed for the Manager to appoint White Horse Property Management Company for the provision of similar services in respect of the White Horse Units. The following table shows the property management/leasing service fee charged by all listed REITs on the Singapore Exchange:

REIT Name	Property management fee/leasing service fee
Ascendas REIT	(i) 3 per cent p.a. of gross revenue (ii) Variable marketing service fee (ranging from one-half to two month's gross rent, depending on the length and nature of subject tenancy) and project management service fee (depending on size of subject project)

REIT Name	Property management fee/leasing service fee
CapitaCommercial Trust	(i) 3 per cent p.a. of net property income before the property manager's property management fee (ii) Variable leasing commissions (ranging from one-quarter to one month's gross rent, depending on the length and nature of subject tenancy)
CapitaMall Trust	(i) 2 per cent p.a. of gross revenue (ii) 2 per cent p.a. of net property income (iii) 0.5 per cent p.a. of net property income in lieu of leasing commissions
Fortune REIT	(i) 3 per cent p.a. of gross property revenue (ii) Variable marketing service fee (ranging from one-half to one month base rent, depending on the length and nature of subject tenancy)
Mapletree Logistics Trust	(i) 3 per cent p.a. of gross revenue (ii) Variable marketing service fee (ranging from one-half to two months' gross rent, depending on the length and nature of subject tenancy) and project management fee (depending on size of subject project)
Macquarie MEAG Prime REIT	(i) 3 per cent p.a. of gross revenue (ii) Variable leasing commission (ranging from one-twelfth to one month's base rent, depending on the length and nature of subject tenancy)
Suntec REIT	(i) 2.5 per cent p.a. of gross revenue (ii) 3 per cent p.a. of the portion of gross revenue above S$100 million up to S$130 million (iii) 3.5 per cent p.a. of the portion of gross revenue above S$130 million
GZI REIT	**(i) 4 per cent p.a. of the Rental Income of the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units to Yi Cheng** **(ii) 3 per cent p.a. of the Rental Income of the White Horse Units to White Horse Property Management Company**

Source: The respective prospectus

According to the above table, the remunerations to Leasing Agents are inclusive of compensation for providing property management services, lease management services as well as marketing and marketing co-ordination services, whereas the marketing service fee is charged separately on a commission basis for most of the above REITs listed in Singapore. Based on our research on the REITs listed in Singapore, the all-inclusive (fixed plus variable portion) property manager's fee ranged from 2.52 per cent. to 5.39 per cent.[1] of the rental income for their respective latest 2 financial periods (except for Mapletree Logistics Trust that did not disclose its actual level of property manager's fee in the annual report and the Fortune REIT that did not disclose the breakdown of its gross revenue when calculating the property manager's fee). Therefore, the remunerations paid to the Leasing Agents are within the range of the fee paid to the property managers of the REITs listed in Singapore and therefore we believe the Leasing Agents will not be under-remunerated. In addition, with experience in managing the Properties since December 1997 and November 1998 for Yi Cheng and White Horse Property Management Company respectively, the Leasing Agents are in an advantageous position to handle all matters in relation to the Properties. In this regard, the proposed management fee paid by GZI REIT to the Leasing Agents is fair and reasonable and is in the interest of the Shareholders and the Company as a whole.

b. Right of First Refusal

The GZI Group proposes to grant to GZI REIT, conditional on the Proposed Spin-off, the Right of First Refusal pursuant to a deed of Right of First Refusal for a period of five years, subject to the Units continuing listing on the Stock Exchange or the entity which is the manager of GZI REIT remaining a subsidiary of the GZI Group or Yue Xiu and its subsidiaries, with effect from the Listing Date. Pursuant to this arrangement, GZI REIT will be granted first right of refusal to acquire certain properties from the GZI Group in the event that the GZI Group proposes to dispose to a third party or parties any completed Grade-A office or commercial building located in Guangzhou, the PRC in which such a property, (i) fulfils (or would reasonably be regarded as fulfilling) the investment criteria and property characteristics and is consistent (or would reasonably be regarded as being consistent) with the investment objective and policy of the Manager, for property investments by GZI REIT; (ii) is owned by or developed by the GZI Group and in which the GZI Group has an ownership interest of 95 per cent or more in such a property; and (iii) has a value of US$20 million (or approximately HK$156 million) or more as determined by an independent valuer or other property consultant (for details, please refer to paragraph one under the sub-section headed "Deed of Right of First Refusal" in the Letter from the Board).

Future property transactions between the GZI Group and GZI REIT subsequent to the Separate Listing will be based on value appraised by independent surveyors or other property consultant, if there is any dispute arising between GZI and the Manager on the

1 Computations based on the actual level of property management fee disclosed in the respective annual report against the respective rental income for the relevant financial period.

issue of whether the terms on which GZI proposes to sell the Relevant Property to the third party are more favourable than those offered to GZI REIT (from the perspective of the GZI REIT) to ensure the transactions are fair and reasonable as far as all parties are concerned (details of the operative of the Deed of Right of First Refusal have been included in the section headed "Documents Related to the Separate Listing" in the Letter from the Board). Besides, the granting of Right of First Refusal is common amongst REIT listings (four out of the eight REITs quoted in sub-section (a) above have such a provision). It is considered one of the major features for a REIT listing as it can enhance the attractiveness of the Global Offering and, thus, possibly maximize the net proceeds generated therefrom. Further, for the prospective Unitholders of GZI REIT, the Right of First Refusal gives rise to possible growth opportunities of GZI REIT. In this regard, the granting of the Right of First Refusal is in the interest of the Shareholders, the Company and GZI REIT. Finally, since the GZI Group and GZI REIT are both engaged in businesses in the real estate industry, the granting of the Right of First Refusal will help mitigate possible fear from prospective investors of GZI REIT that the GZI Group might compete with GZI REIT in the future. Such doubt could dampen investors' confidence in the Global Offering and may suppress the amount of proceeds from the Separate Listing or ultimately jeopardize it.

A similar arrangement can also be found in the Link Real Estate Investment Trust in Hong Kong (the "Link REIT"), which issued an offering circular on 14th November, 2005 in connection with the initial offering and listing of its units on the Stock Exchange. It was agreed between Hong Kong Housing Authority and the trustee and manager of Link REIT that, in the event that the former intends to sell certain properties, Link REIT would be offered a right of first refusal to purchase such properties at a price set at the higher of two independent valuations in order to warrant reasonableness of the pricing of the properties for a period of 10 years. Likewise, independent valuations of properties intended to be sold have to be carried out by chartered surveyors or other property consultant in order to justify the price offered by the GZI Group to GZI REIT in certain circumstances detailed above. Having considered the above factors, we opine that the granting of the Right of First Refusal by the GZI Group to GZI REIT is fair and reasonable to the Shareholders and is in the interest of the Shareholders and the Company as a whole.

c. Lock-up arrangement

It is proposed that GZI will enter into a lock-up arrangement for a period of six months following the Listing Date. Details of the lock-up arrangement will be set out in the Offering Circular.

In analysing the impact of the lock-up arrangement, we have taken into account that the lock-up period stated is no more than what must be abided by controlling shareholders of any other new listing applicants on the Stock Exchange. Therefore, the arrangement is not prejudicial against the GZI Group. Further, if without the lock-up arrangement, we fear that prospective investors of GZI REIT may raise doubt as to the level of confidence the GZI Group has on the business fundamentals of GZI REIT as the GZI Group could further sell down its stake immediately after the completion of the Global Offering. Such doubt could dampen investors' confidence in the Global Offering and may suppress the amount of proceeds from the Separate Listing or may ultimately jeopardize it. We believe the implementation of the lock-up arrangement can resolve such conflict between the GZI Group and prospective investors in GZI REIT as a result of information asymmetry. In this regard, the lock-up arrangement for GZI Group is fair and reasonable to the Shareholders and is in the interest of the Shareholders and the Company as a whole.

d. Deed of Indemnity

As a condition precedent to the completion of the Reorganization Deed, GCCD BVI and GZI will execute the Deed of Indemnity in favour of Holdco (for itself and for each of the BVI Companies), the Manager and the Trustee under which GCCD BVI and GZI will undertake jointly and severally with each of the BVI Companies, Holdco and the Trustee to indemnify each BVI Company and Holdco against, among other things, all or any depletion or reduction in the value of their respective assets, or increase in the liabilities, loss or deprivation of any relief from taxation, of any of the BVI Companies or Holdco, as a result of or in connection with any claim by any revenue, customs, fiscal, statutory or governmental or other authority or the PRC or in any other part of the world, including but not limited to:

(i) the amount of any and all taxation falling on any of the BVI Companies or Holdco or in respect of the Properties resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, effected on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any of the BVI Companies or Holdco of any amounts paid by GCCD BVI or GZI under the Deed of Indemnity;

(ii) the amount of any and all fine or penalties imposed on any of the BVI Companies or Holdco by any revenue, customs, fiscal, statutory or governmental or other authority whatsoever in the PRC and any loss or damage suffered by any of the BVI Companies or Holdco resulting from the failure to stamp and/or register any tenancies in respect of the Properties as at certain specified date;

(iii) the amount of any and all taxation resulting from the transfer of the Property to any of the BVI Companies or Holdco or any transaction effected on or before the Listing Date;

(iv) the amount of any and all fines or penalties imposed on any of the BVI Companies or Holdco by any statutory or governmental or other authority whatsoever in the PRC and any loss or damage suffered by any of the BVI Companies or Holdco resulting from any non-conformity of the Properties (or any part thereof) with applicable building regulations and, if rectification of such non-conformities is required by such authorities, the cost of such rectification and any losses, damages or costs (including, without limitation, any loss of rentals) which any of the BVI Companies or Holdco may incur in connection therewith;

(v) all actions, claims, losses, damages, costs (including all legal costs), charges, expenses, interests, penalties or other liabilities which any of the BVI Companies or Holdco may reasonably and properly incur in connection with:

— the investigation, assessment or the contesting of any such claim;

— the settlement of any such claim;

— any legal proceedings in which any of the BVI Companies or Holdco claims under or in respect of the deed and in which judgment is given in favour of any of the BVI Companies or Holdco; or

— the enforcement of any such settlement or judgment.

The Deed of Indemnity will not cover any claim in respect of taxation or liability, amongst other things, to the extent that provision, reserve or allowance has been made for such taxation or claim in the combined management accounts of the BVI Companies as at the date immediately preceding the Listing Date.

No claims may be brought against GCCD BVI or GZI after the expiry of six years following the Listing Date and GCCD BVI and GZI shall not be liable in respect of a claim unless they have received written notice from Holdco prior to the expiry of six years following the Listing Date, giving reasonable details of the relevant claim.

Since the indemnity executed will only relate to events up to the Listing Date, we are of the opinion that the provision of the indemnity by GCCD BVI and GZI as fair and reasonable and is in the interests of the Shareholders and the Company as a whole.

3. Consideration for the BVI Companies and minimum net cash proceeds from the Separate Listing

It is expected the net cash proceeds from the Separate Listing to be no less than approximately HK$2,400 million (assuming the Over-allocation Option is not exercised) depending on the final Offer Price. The aggregate carrying value of the Properties as at 30th June, 2005 and the appraised value of the Properties as at 30th September, 2005 was approximately HK$3,204 million (converted at an exchange rate of RMB1.04 = HK$1 for illustration purpose only) and HK$4,005 million respectively. The final consideration, being the Initial Consideration plus the Adjustment, is estimated to be no less than approximately HK$3,600 million, or approximately 10 per cent. discount to the appraised value of the Properties. Therefore the price-to-book ratio at which the Properties are transferred to Holdco will be no less than approximately 1.13[2] times. Such consideration represents a price-to-appraised value ratio of the Properties of no less than approximately 0.9[3] times, subject to the Adjustment based on the final Offer Price. In our analysis, we have made substantial reference to the price-to-book ratio over other methodologies as we believe it is an appropriate method for companies that engage in the business of investment properties holdings.

2 Based on the estimated final consideration of no less than approximately HK$3,600 million divided by the aggregate carrying value of the Properties as at 30th June, 2005 of approximately HK$3,204 million (converted at an exchange rate of RMB1.04 = HK$1 for illustration purpose only).

3 Based on the estimated final consideration of no less than approximately HK$3,600 million divided by the appraised value of the Properties as at 30th September, 2005 of approximately HK$4,005 million.

As there has been no REIT listed on the Stock Exchange as at the Latest Practicable Date, we have made reference to seven REITs listed on the Singapore Exchange which we consider comparable to GZI REIT, and examined the price-to-book ratio in order to assess the fairness and reasonableness of the proposed consideration for the Properties.

The table below is a summary of our findings:

REIT	**Type of REIT**	**Price-to-book ratios** *(times)**
Mapletree Logistics Trust	Diversified	1.58
Ascendas Real Estate Investment Trust	Diversified	1.40
CapitaMall Trust	Shopping Centres	1.36
Macquarie MEAG Prime REIT	Shopping Centres	0.99
CapitaCommercial Trust	Diversified	0.97
Suntec Real Estate Investment Trust	Diversified	0.85
Fortune Real Estate Investment Trust	Shopping Centres	0.78
	Average	1.13
GZI REIT	Diversified	Minimum price-to-appraised value ratio of 0.90

Sources: Bloomberg

Note: The above samples were generated from Bloomberg under the search categories of "REITs — Diversified", "REITs — Shopping Centres" and "REITs — Office Property" for REITs that are listed on the Singapore Exchange. We believe the above serves as a fair and reasonable comparable to GZI REIT since its portfolio comprised only shopping centres and office properties.

* *Price-to-back ratio is computed based on the closing price of the relevant units as at the Latest Practicable Date and book value per share as at the end of the latest financial period.*

The price-to-book ratios of the above comparables range from approximately 0.78 times to 1.58 times with an average of approximately 1.13 times. The minimum price-to-appraised value ratio of the Properties of 0.90 times is below the average but within range of the comparables. It is widely accepted that the lead managers and underwriters of an initial public offering of shares negotiate a price-to-earnings ratio (or price-to-book ratio which is applicable for companies engaging in the business of investment properties holdings) lower than that of the market in order to enhance its appeal to the investing public. Based on our research, the maximum average price-to-book ratio of the above Singapore-listed REITs at their respective initial public offering date was 1.05 times. Finally, we have taken into account that the Properties are all located in the PRC compared to other REITs quoted above, which is considered as an emerging and risky market by investors. Therefore we are of the view that it is acceptable for the minimum price-to-appraised value ratio to be lower than the average found in the secondary markets for listed REITs.

Finally, we have taken into consideration the averge price-to-book premium and discount of companies engaging in property investment or development in the PRC that are listed on the Stock Exchange. A sample of 22 companies involved in PRC property investment or development listed on the Stock Exchange has been taken. The table below summarises the result of the analysis:

Stock code	**Company**	**Price-to-book (discount)/premium as at the Latest Practicable Date** *(per cent.)*
1125	Lai Fung Holdings Ltd.	(72)
29	Dynamic Holdings Ltd.	(66)
169	China Fair Land Holdings Ltd.	(63)
28	Tian An China Investments Co., Ltd.	(62)
1124	Coastal Greenland Ltd.	(55)
63	Wingfoong International Ltd.	(55)
917	New World China Land Ltd.	(50)
115	Grand Field Group Holdings Ltd.	(47)
258	Tomson Group Ltd.	(37)
535	Frasers Property (China) Limited	(29)
588	Beijing North Star Co. Ltd.	(21)
649	Shimao International Holdings Ltd.	(12)
1109	China Resources Land Ltd.	5
1207	Shanghai Real Estate Ltd.	17
2868	Beijing Capital Land Ltd.	55
688	China Overseas Land & Investment Ltd.	83
2337	Shanghai Forte Land Co. Ltd.	104
149	China Velocity Group Ltd.	109
563	Neo-China Group (Holdings) Ltd.	139
754	Hopson Development Holdings Ltd.	181
766	Sino Prosper Holdings Ltd.	233
2777	Guangzhou R&F Properties Co., Ltd.	279
	Average	**29 (Before adjustment for outliers) /17 (After adjustment for outliers)**
	GZI REIT	Maximum price-to-appraised value discount 10 per cent.

Source: Bloomberg

Note: The above samples were generated from Bloomberg under the search category of "Real Estate Operations/Development" for companies listed on the Stock Exchange. Only companies with more than 50 per cent of turnover generated from properties related operations in the PRC and more than 50 per cent of total asset related to properties related operations in the PRC in the latest financial statements are included in the sample to ensure the samples were comparable to the business of GZI REIT.

We believe the above is an exhaustive list of PRC property investment or development companies listed in Hong Kong bound by the criteria set out in the note above. On average, companies listed on the Stock Exchange that engaged in property investment or development in the PRC have been trading at a price-to-book discount of approximately 72 per cent. to a premium of approximately 279 per cent. with an average premium of approximately 29 per cent. After adjusting for the outliers effect, the average price-to-book premium of the above comparables is approximately 17 per cent.[4], compared to the price-to-appraised value discount of a maximum of approximately 10 per cent. of the Properties. In fact, the GZI Group was trading at a price-to-book discount of approximately 32 per cent as at the Latest Practicale Date.

Having considered the above, we believe the minimum price-to-appraised value ratio in which the Properties will be transferred to Holdco is fair and reasonable and is in the interests of the Shareholders and the Company as a whole. Nevertheless, should the final terms of the Global Offering result in the net cash proceeds to be raised from the Separate Listing falling below HK$2,400[5] million (assuming the Over-allocation Option is not exercised) as stated herein, a subsequent Shareholders' approval of the Separate Listing may be required as the analysis and impact of the Separate Listing in this Circular may no longer apply.

4. **Effects of the Separate Listing on the GZI Group**

In this section, the financial impact of the Separate Listing is analysed based on the following assumptions: (i) the proposed Global Offering had been completed on 30th June, 2005; (ii) net cash proceeds from the Separate Listing will be no less than HK$2,400 million; and (iii) the GZI Group's holding in GZI REIT will decrease from 100 per cent to approximately 40 per cent. subsequent to the Separate Listing (assuming that the Over-allocation Option is not exercised).

(i) *Effect on net asset value*

Since the aggregate carrying value of the Properties as at 30th June, 2005 was approximately HK$3,204 million (converted at an exchange rate of RMB1.04 = HK$1 for illustration purpose only) and the Initial Consideration plus the Adjustment will be no less than approximately HK$3,600 million. The unaudited adjusted consolidated net asset value (after minority interests) of the GZI Group is expected to increase from HK$7,739 million as at 30th June, 2005 following the Separate Listing, as the GZI Group will derive a gain from the disposal of the Properties. Such gain will be derived mainly from the fair value gain from the revaluation of the Properties (as at 30th September, 2005) with reference to the aggregate carrying value of the Properties prior to the Proposed Spin-off and the release of deferred taxation on the Properties upon completion of the Separate Listing. In this regard, we believe the Shareholders will benefit from the enhancement in the net asset value per Share resulting from the Separate Listing.

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4 Outliers adjustment has resulted in the removal of one observation that exceed two standard deviation from the mean price-to-book premium of the above samples.

5 The net cash proceeds of approximately HK$2,400 million from the Septarate Listing represent the proceeds (i.e. Initial Consideration plus Adjustment of no less than HK$3,600 million) from the disposal of its 60 per cent. interests in GZI REIT net of costs.

(ii) *Effect on earnings*

Following the Separate Listing, the GZI Group will apply the net proceeds from the Separate Listing to repay bank loans outstanding which is expected to reduce the interest expenses of the GZI Group. Further, the GZI Group will receive dividends distributions on its holding in GZI REIT and the management fee income of the Manager in addition to the Leasing Agent's fee subsequent to the Separate Listing. As advised by the Directors, the Manager is to distribute to the Unitholders 100 per cent. of GZI REIT's Total Distributable Income as dividends for each of the financial years from 2006 to 2008 and, thereafter, at least 90 per cent. of annual Total Distributable Income. However, the GZI Group will forgo the rental income from the Properties. The unaudited profit before taxation of the Properties for the two financial years ended 31st December, 2003, 2004 and the half year period ended 30th June, 2005 was approximately HK$344 million, HK$133 million and HK$663 million[6] respectively.

On this basis, and taking into account the improvement in the net tangible assets position of the GZI Group after the proposed Global Offering, on balance, we consider the possible decrease in the profit of the Company attributable to the Shareholders as illustrated above is acceptable.

(iii) *Effect on gearing*

The gearing ratio (being bank borrowings (excluding bank overdrafts) divided by net asset value after minority interests and bank borrowings, calculated in a method consistent with the annual report of GZI in 2004) of GZI will decrease from approximately 41 per cent. as at 30th June, 2005, before the proposed Separate Listing, after applying all net proceeds from the proposed Separate Listing for the repayment of bank loans and the enhancement of net asset value as a result of the gain on the disposal of the Properties. We are of the view that a lower gearing and a lower level of interest expenses are favourable and in the interest of the Company and the Shareholders as a whole.

(iv) *Effect on working capital of the GZI Group*

Subsequent to the Separate Listing, the working capital of the GZI Group is set to improve due to lower interest expenses. Furthermore, after taking into account the dividend income contributed by GZI REIT to the GZI Group and the management fee to be paid by GZI REIT to the GZI Group in the future, we opine that current assets of the GZI Group are set to improve. Regarding the current liabilities, the GZI Group will operate independently from GZI REIT with neither cross-corporate guarantee nor inter-company financing provided. Therefore, we are of the view that working capital of the GZI Group will improve after the Separate Listing.

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6 The profit before taxation for the two years ended 31st December, 2003 and 2004 and the six months ended 30th June, 2005 includes fair value gains on investment properties of approximately HK$246 million, HK$5 million and HK$594 million respectively.

Overall, based on the above quantitative factors considered, we are of the opinion that the Separate Listing will have a favourable financial impact on the Group and therefore we believe it is fair and reasonable and is in the interest of the Shareholders and the Company as a whole.

5. **Effects of the Separate Listing on the Shareholders**

(i) *The Distribution and the Option*

Under PN15 of the Listing Rules, the Shareholders must be offered an assured entitlement to units in GZI REIT, either by way of a distribution in specie of existing units in GZI REIT or by way of preferential application in any offering of existing or new units in GZI REIT. On 23rd November, 2005, the Board conditionally declared a special dividend of a sum to be determined by the Directors, being part of the amount standing to the credit of the Company's reserves, and which shall represent the value of such number of Units as will represent approximately 2.5 per cent. (assuming the Over-allocation Option is exercised in full) to 2.9 per cent. (assuming the Over-allocation Option is not exercised) of the Global Offering and approximately 1.7 per cent. of the total number of issued Units of GZI REIT immediately upon listing of the Units on the Stock Exchange to the Shareholders whose names appear on the register of members of GZI on the Record Date. The Directors proposed to distribute, by way of a distribution in specie, Units to the Qualifying Shareholders on the basis of one Unit for every whole multiple of 400 Shares held by them as at the close of business on Record Date. Fractional entitlements will be retained by the Company for sale in the market upon commencement of dealings in Units on the Stock Exchange with the net proceeds from which to be retained by the Company for its benefits.

To allow each of the Qualifying Shareholders to have a choice as to whether to retain the Units received under the Distribution, it is proposed that each of the Qualifying Shareholders will be given an Option. By exercising the Option, Qualifying Shareholders will receive the Cash Payment instead of the Units which they would otherwise be entitled under the Distribution.

For Ineligible Overseas Shareholders, if any, who will not be transferred any Units under the Distribution, the Units which such Shareholders would have been otherwise entitled to receive will be offered for sale by the Joint Global Coordinators under the International Offering. The net proceeds of the sale of such Units after deducting applicable taxes, stamp duty, SFC transaction levy, Stock Exchange trading fee, and investor compensation levy, if any, will be used to fund Cash Payment to the Ineligible Overseas Shareholders on the basis of the number of Units that the relevant Ineligible Overseas Shareholders would have been otherwise entitled to under the Distribution multiplied by the Offer Price net of all the aforementioned expenses.

The Distribution is subject to the satisfaction of the conditions of the proposed Separate Listing as set out in paragraph eight headed "Conditions" under the section headed "The Separate Listing" in the Letter from the Board.

Qualifying Shareholders should note that the assured entitlements to Units under the Distribution may not represent a multiple of a board lot of 2,000 Units, and that dealings in odd lots of the Units may be at a price below their prevailing market price. Entitlements to Units are not transferable and there will be no trading in nil paid entitlements on the Stock Exchange. Any Unit issued pursuant to the Distribution shall be deemed fully paid, ranking pari passu in all respects with other Units then in issue. The Company will appoint HSBC Securities (Asia) Limited to deal with odd lots of the Units arising from the Distribution. Based on the expected timetable, the register of members of the Company will be closed on 9th December, 2005 and will be re-opened on 12th December, 2005 for the purpose of determining the entitlements of the Shareholders to the Units under the Distribution. No transfer of the Shares may be registered during such period. In order to qualify for the Distribution, all transfers must be lodged with the Registrar by no later than 4:00 p.m. on 8th December, 2005. However, if the Separate Listing is postponed, the Board may determine another date(s) for closure of the register of members of the Company for the purpose of determining the entitlement to the Distribution and further announcement(s) will be made to inform the Shareholders and other investors in due course.

Since the Distribution has met the requirement of the assured entitlements under PN15 and Qualifying Shareholders are given the election for either Units or Cash Payment by exercising the Option, we consider that the Distribution and the granting of the Option are fair and reasonable insofar as the Shareholders are concerned.

(ii) *Dilution of interest in GZI REIT*

The table below sets out the potential dilutive effect of the Global Offering to the Shareholders' attributable interest in GZI REIT based on the current expected structure of the Global Offering.

	Attributable interest of the GZI Group in GZI REIT *(per cent)*
Before the Global Offering	100
Immediately after the Global Offering (taking no account of the Units which may be issued pursuant to the exercise of the Over-allocation Option)	40

As illustrated in the above table, GZI REIT will cease to be a subsidiary and become an associated company of the GZI Group and the GZI Group will no longer hold a majority shareholding in GZI REIT after the Separate Listing. Having considered:

(i) the factors discussed in "1. Background to and reasons for the Separate Listing" and "4. Effects of the Separate Listing on the GZI Group";

(ii) that the minimum final consideration (which shall be the Initial Consideration plus the Adjustment) is acceptable as compared with the price-to-book ratio of the comparables and it represents a premium to the current price-to-book ratio of the GZI Group; and

(iii) that the net tangible asset value per Share subsequent to the Separate Listing will increase as a result of the gain on disposal;

we are of the view that the benefits of the Separate Listing outweigh the dilution of the attributable interest of the GZI Group in GZI REIT, which will be reduced from 100 per cent. to approximately 40 per cent. and such dilution should be acceptable to the Shareholders with reference to factors (i), (ii) and (iii) above. Besides, the Distribution would reduce the dilutive effect of the Separate Listing from the perspective of the Shareholders if the Shareholders elect to accept it over the exercise of the Option. Nevertheless, the Shareholders should be reminded that their interest in GZI REIT through the GZI Group may be further diluted to approximately 30 per cent. upon the exercise of the Over-allocation Option on or after the Separate Listing. As most Hong Kong initial public offerings raising more than HK$100 million have adjustment mechanism similar to the Over-allocation Option, we consider that the Over-allocation Option in the Global Offering is a common market practice. Such practice is a measure to satisfy unfilled demand for the Units when there is overwhelming response to the Global Offering. Therefore, the granting of the Over-allocation Option is acceptable and is in the interest of the Shareholders and the Company as a whole.

6. **Conditions of the Global Offering**

Your attention is drawn to paragraph eight headed “Conditions” under the section headed “Separate Listing” in the Letter from the Board in this circular. A formal application will be made by GZI REIT to the Stock Exchange for the listing of, and permission to deal in, any Units to be issued pursuant to the Reorganization Deed and to be issued in connection with the Global Offering. In addition to the approval by the Shareholders of the Separate Listing at the EGM, the Global Offering and the Separate Listing will also be conditional upon, amongst other things, the Authorization, the Listing Committee granting in the Listing Approval, the obligations of the underwriters under the underwriting agreements to be entered into between GZI REIT, the Company and the underwriters in respect of the Global Offering becoming unconditional and the underwriting agreements not being terminated. Accordingly, the Separate Listing may not proceed if the aforesaid, and other applicable conditions, are not fulfilled or waived. The Shareholders should exercise caution when dealing in the Shares and are advised to read the corporate announcements of the Company for the latest development of the Separate Listing. There is, therefore, no assurance that the Proposed Spin-off and the proposed Global Offering will proceed.

RECOMMENDATION

Having taken into consideration the principal factors and reasons as set out above, we are of the view that the terms and conditions of the Reorganization Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are fair and reasonable so far as the Shareholders are concerned and the Reorganization Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Shareholders to vote in favour of the resolution that will be submitted at the EGM to approve the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing. Nevertheless, should there be any material variation to the terms and conditions as discussed herein which would alter our recommendation to the Independent Board Committee and the Shareholders in relation to the Reorganization Deed, the Distribution, the Option, the Separate Listing and other matters related to the Separate Listing, a separate approval from the Shareholders will be required. In such circumstances, a supplemental circular will be issued to the Shareholders.

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

The following is the text of a valuation report received from Colliers International (Hong Kong) Ltd, an independent property valuer, in connection with its valuation as at 30 September 2005 for certain property interests of the GZI Group in the PRC.

COLLIERS INTERNATIONAL

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25 November 2005

The Board of Directors
Guangzhou Investment Company Limited
24th Floor, Yue Xiu Building
160-174 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

Re: Valuations of various units of the property (the "Subject Properties") located in White Horse Building, Fortune Plaza, City Development Plaza and Victory Plaza, Guangzhou, Guangdong, The People's Republic of China for Guangzhou Investment Company Limited (hereinafter referred to as "GZI") and its subsidiaries (hereinafter together referred to as the "GZI Group")

In accordance with GZI's instructions to value the Subject Properties in the People's Republic of China (the "PRC") in which the GZI Group will be disposing, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Subject Properties as at 30 September 2005 (the "date of valuation").

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

We hereby confirm that:

i) We have no present or prospective interest in the Subject Properties;

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

iii) We have not previously valued the Subject Properties;

iv) The valuations have been prepared on fair and unbiased basis; 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 these valuations is authorised to practice as a valuer.

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

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

1. EXECUTIVE SUMMARY

1.1 Qualification of the Valuers

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

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

He has been assisted by Patrick Lee and Thomas Lam who are Members of the Royal Institution of Chartered Surveyors, Members of the Hong Kong Institute of Surveyors and Registered Professional Surveyors under the Surveyors Registration Ordinance (Cap. 417).

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

1.2 Information Sources

All investigations have been conducted independently and without influence from any third parties in any way. The information provided in this report has been obtained from Guangzhou Investment Company Limited ("GZI"), Z & T Law Firm (the "PRC legal adviser"), relevant bureaux, the People's Government of Guangzhou and other public sources.

1.3 Instructions

We accepted instructions to conduct valuations of the Subject Properties as at the date of valuation from GZI for the disposal of the Subject Properties by GZI Group.

We have complied with the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (HKIS) in January 2005. We have also made reference to the International Valuation Standards (7th Edition) published by the International Valuation Standards Committee in 2005.

Inspections of the Subject Properties were carried out in June, July and September 2005. We confirm that we have made relevant enquiries and obtained such information as we consider necessary to conduct the valuations.

2. BASIS OF VALUATION

Market Value

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

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

We have valued the Subject Properties in their existing state based on the opinion of the PRC legal adviser, Z & T Law Firm (the "PRC Legal Opinion") that the Subject Properties can be freely transferred, mortgaged and let in the market and all proper title certificates have been obtained and land premiums have been fully settled.

3. VALUATION RATIONALE

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

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

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

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

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

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

In our calculation, we have not deducted any acquisition costs and disposal costs. We are of the opinion that these issues would be taken into account by a prospective purchaser.

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

3.3 Sales Comparison Approach

This approach estimates the values of the properties by comparing recent sales of similar interests in the building 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 size, location, time, amenities and other relevant factors when comparing such sales against the properties. This approach is commonly used to value standard properties 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 Subject Properties. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. We have relied on the PRC Legal Opinion, concerning the validity of the titles to the Subject Properties held by Full Estates Investment Limited, Partat Investment Limited, Moon King Limited and Keen Ocean Limited in the PRC.

4.2 The PRC Legal Opinion

In our valuations, we have relied on the PRC Legal Opinion on the validity of the Subject Properties' title.

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

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

5. EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars. The exchange rate used in valuing the Subject Properties as at the date of valuation was HK$1 = RMB1.043. There has been no significant fluctuation in exchange rate between the date of valuation and the date of this letter.

6. CAVEATS AND ASSUMPTIONS

The valuations are subject to the following caveats and assumptions.

(a) We have inspected the exterior and interior of the Subject Properties. No tests were carried out on any of the services. However, reference can be made to a separate Building Condition Survey Report.

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

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

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

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

(f) We have relied to a very considerable extent on the information provided by the relevant parties:

— property information, including rent roll, floor plans, property particulars, etc. by GZI; 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 Subject Properties but have assumed that the site and floor areas shown on the documents and official site plans handed to us are correct. We have measured a sample of units from the plans on both the commercial podium floors and the office floors to confirm the correctness of this analysis. 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 had no reason to doubt the truth and accuracy of the information provided to us by GZI and the PRC legal adviser. We have sought confirmation from GZI that no material factors have been omitted from the information supplied. We take no responsibility for inaccurate data provided by GZI and the PRC legal adviser and subsequent conclusions derived from such data and information.

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

Valuation of various units of the property (the "Subject Property") located in White Horse Building, Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, Guangdong, the People's Republic of China (the "PRC") for Guangzhou Investment Company Limited (hereinafter referred to as "GZI") and its subsidiaries (hereinafter together referred to as the "GZI Group")

1. SUMMARY OF THE SUBJECT PROPERTY

According to the PRC Legal Opinion, 9 Real Estate Title Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Partat Investment Limited (柏達投資有限公司)
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	According to the State-owned Land Use Right Grant Contract dated 28th June, 2005, the zoning of the underlying land of White Horse Building is described as "commercial/office".
4.	Interest Valued	:	Leasehold interest of the Subject Property.
5.	Property Description	:	The Subject Property forms a portion of a 10-storey wholesale garment shopping centre, including eight levels above ground, a lower ground level and a basement accommodating a car park. (See Section 3.5 for details)
6.	Gross Floor Area ("GFA") of the Subject Property	:	Total - 50,199.3 sq.m. Retail - 46,279.3 sq.m. Office - 3,920.0 sq.m. Lower Ground Level - 1,121.7 sq.m. Level 1 - 7,667.0 sq.m. Level 2 - 7,199.8 sq.m. Level 3 - 7,684.9 sq.m. Level 4 - 7,695.6 sq.m. Level 5 - 7,466.4 sq.m. Level 6 - 7,443.9 sq.m. Level 7 - 2,003.5 sq.m. Level 8 - 1,916.5 sq.m. Levels 1, 2, 3, 4, 5, 6, 7, 8 correspond to 2nd, 3rd, 4th, 5th, 6th, 7th, 8th and 9th storeys in White Horse Building respectively.

7.	Lease Term		Lower Ground Level - 50 years from 7 June 2005 Level 1 - 40 years from 7 June 2005 Level 2 - 40 years from 7 June 2005 Level 3 - 40 years from 7 June 2005 Level 4 - 7,164.2 sq.m. - 40 years from 7 June 2005 Level 4 - 531.4 sq.m. - 50 years from 7 June 2005 Level 5 - 50 years from 7 June 2005 Level 6 - 50 years from 7 June 2005 Level 7 - 50 years from 7 June 2005 Level 8 - 50 years from 7 June 2005
8.	Usage		Lower Ground Level - Storage Level 1 - Commercial Level 2 - Commercial Level 3 - Commercial Level 4 - Commercial/Office Level 5 - Office Level 6 - Office Level 7 - Office Level 8 - Office
9.	Internal Floor Area of the Subject Property	:	48,100.6 sq.m.
10.	Gross Rentable Area of the Subject Property	:	49,007.2 sq.m.
11.	Construction Completion Date of White Horse Building	:	1990 with extension and renovation thereafter between 1995 and 1997 as well as between 1998 and 2000
12.	Valuation Approach	:	Income Capitalisation Approach including Discounted Cash Flow Analysis, cross-checked by the Sales Comparison Approach
13.	Date of Valuation	:	30 September 2005
14.	Market Value in existing state as at the date of valuation	:	HK$2,541,500,000
15.	Unit Value on Gross Floor Area	:	HK$50,628 per sq.m.
16.	Net Passing Income as at the Date of Valuation	:	RMB117,055,044 per annum

17.	Fully Leased Net Income as at the Date of Valuation	:	RMB117,055,044 per annum
18.	Estimated Current Market Rental Income as at the Date of Valuation	:	RMB254,124,912 per annum
19.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
20.	Exchange Rate as at the Date of Valuation	:	HK$1 = RMB1.043
21.	Term Yield	:	8%
22.	Reversionary Yield	:	9.5%
23.	Occupancy Rate as at the Date of Valuation	:	100%
24.	Vacancy Allowance	:	1%
25.	Market Comment	:	We consider the marketability of the Subject Property to be reasonable in view of its location and accessibility.

Note: The usage is based on the Real Estate Title Certificates and the PRC Legal Opinion.

2. TITLE INVESTIGATION

According to the PRC Legal Opinion, there is a Gongan Building erected on the south side of White Horse Building with a gross floor area of 2,700 sq.m. There was an agreement signed on 7 February 1994 between Guangzhou City Construction & Development Group Co. Ltd. (廣州市城市建設開發集團有限公司) and Guangzhou City Gongan Bureau (廣州市公安局). Guangzhou City Construction & Development Group Co. Ltd. was responsible for the design, obtaining approval and construction of the Gongan Building. Guangzhou City Gongan Bureau was responsible for paying the construction cost as well as land premium of RMB950,000 to Guangzhou City Construction & Development Group. Guangzhou City Gongan Bureau could use the Gongan Building for the residual land use rights term. The PRC legal adviser is of the opinion that the owner of the Subject Property does not have the right to use and the title ownership of Gongan Building but this will not affect Partat Investment Limited's title to the Subject Property.

3. THE SUBJECT PROPERTY

3.1 Situation, Locality and Zoning

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

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

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

3.2 Surrounding Development and Environmental Issues

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

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

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

3.3 Availability of and Access to Public Transport

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

3.4 Car Accessibility and Road Frontage

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

Travelling time to major areas of the City through driving:

Guangzhou Railway Station	2 minutes
Baiyun International Airport	40 minutes
Teem Plaza	20 minutes
Guangzhou East Train Station	25 minutes

3.5 Description of the Development

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

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

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

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

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

Car parking facilities are accommodated within basement level 1.

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

3.6 Portion of Interest to be Disposed by GZI Group

GZI Group is disposing a portion of the development and the details of the interest to be disposed are listed below:

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

Note: The breakdown of the gross floor area and the usage is based on the Real Estate Title Certificates and the PRC Legal Opinion.

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

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

3.7 Specification, Services and Finishes of the Development

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

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

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

The building is maintained in a reasonable condition commensurate to its age. The building is managed by Guangzhou White Horse Property Management Co. Ltd. and it is responsible for collection of all management fees from the tenants and dealing with the day to day operations and outgoings relevant to the development.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system, fire extinguishers etc throughout the building. For further information on building condition, reference should be made to the Building Condition Survey Report.

3.8 Building Condition of the development

According to the Building Condition Survey Report, the building is maintained in a reasonable condition. White Horse Building and its vehicular access are generally in compliance with the record plans furnished by Guangzhou City Construction & Development Co. Ltd.

For the non-conformity items, some minor deviations such as relocation of shroff office and plant room from their approved locations, were found by the building surveyor.

For further information of the building condition, reference should be made to the Building Condition Survey Report.

We are of the opinion that the non-conformity items have no material impact on the value of the Subject Property.

3.9 Current Rental Income

As at the date of valuation, the Subject Property was fully leased.

According to the supplied rent roll as at the date of valuation, for which a sample of 20% of leases (which is equivalent to about 20% of the total passing rental income) were checked by us and were found to be in order, the existing net monthly rental income and equivalent annual net rental income was as follows:

Gross Floor Area *(sq.m.)*	**Monthly Gross Passing Rental Income (inclusive of Management Fee)** *(RMB)*	**Monthly Net Rental Income** *(RMB)*	**Annual Net Rental Income** *(RMB)*
50,199.3	11,811,843	9,754,587	117,055,044

As at the date of valuation, the Subject Property was leased to 969 tenants.

According to the supplied information, we understand that the current passing rental income (based on existing leases) is inclusive of property management fee. As advised by GZI, we have deducted a monthly property management fee of RMB45 per sq.m. in order to assess the net rental income.

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

As at the date of valuation, the top 10 major tenancy agreements by rental income within the Subject Property occupied 1.9% of the total gross floor area and were responsible for 3.4% of the gross rental income received. Details of the tenancy agreements are as follows:

Unit	Gross Floor Area	Gross Monthly Rental Income Inclusive of Management Fee	Net Monthly Rental Income	Unit Net Monthly Rental Income	Estimated Unit Net Monthly Rental Income	% of Current Monthly Net Rental Income	Lease Term From	Lease Term To
	(sq.m.)	*(RMB)*	*(RMB)*	*(RMB/ sq.m.)*	*(RMB/ sq.m.)*			
Portion of Level 1	235.2	65,734	55,150	235	650	0.6%	1/1/2002	12/31/2005
1323	92.2	38,424	34,275	372	650	0.4%	1/1/2002	12/31/2005
1301	87.6	36,507	32,565	372	650	0.3%	1/1/2002	12/31/2005
1305	81.5	33,961	30,294	372	650	0.3%	1/1/2002	12/31/2005
1321	81.5	33,952	30,285	372	650	0.3%	4/1/2005	12/31/2005
1325	80.8	33,660	30,024	372	650	0.3%	9/1/2003	12/31/2005
1302	80.7	33,618	29,987	372	650	0.3%	1/1/2002	12/31/2005
1331	79.7	33,215	29,629	372	650	0.3%	10/1/2002	12/31/2005
1405	77.7	32,372	28,876	372	650	0.3%	7/1/2003	12/31/2005
1322	77.5	32,315	28,828	372	650	0.3%	1/1/2002	12/31/2005

In the above table, the net monthly rental income is obtained by deduction of the property management fee from the gross monthly rental income. As advised by GZI, the monthly property management fee is RMB45 per sq.m. The estimated unit net monthly rental income is based on the unit net monthly rental income of different levels in Section 4.1.

For the top 10 major tenancy agreements by rental income, the current unit net monthly rental income, exclusive of property management fee, is significantly lower than the estimated unit market rental income, exclusive of property management fee.

Different types of rental income for the Subject Property are listed as follows:

Rental Income	Per Month
Total current gross passing rental income (inclusive of property management fee)	RMB11,811,843
Total current net rental income calculated (exclusive of property management fee)	RMB9,754,587
Total current estimated market rental income (exclusive of property management fee)	RMB21,177,076

The total current net passing rental income was 44% and 46% lower than the total net estimated market rental income. However, the agreed renewed rental income is in line with the market level of prime retail developments after excluding property management fee from both rentals.

According to the information provided by GZI, more than 95% of the existing tenancies of the Subject Property have been renewed and will commence from 1 January 2006 at significantly higher rentals than the current passing rentals. Having cross referenced with the current monthly market rental income as at the date of valuation, which is exclusive of property management fee, in the market, we consider that the renewed monthly rental income for the new tenancies, which is exclusive of property management fee, has no material difference from the estimated monthly market rental income, exclusive of property management fee.

As advised by GZI, there were no related parties lettings in the Subject Property as at the date of valuation.

The Subject Property comprises various tenants and mainly occupied for garment wholesale centre and ancillary office.

The details of tenants mix are as follows:

Industry	Gross Floor Area *(sq.m.)*	Percentage
Garment	44,600.1	88.8%
Bank	329.6	0.7%
Others	12.2	0.0%
Food & Restaurants	1,337.4	2.7%
Office & Storage	3,920.0	7.8%
Total area to be disposed	50,199.3	100%

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

3.10 Occupancy Rate

According to the PRC Legal Opinion, the majority of the Subject Property with a total floor area of approximately 49,007.2 sq.m. was leased to various tenants as at the date of valuation. This equates to an occupancy rate of 100% of the Subject Property to be disposed by GZI Group.

3.11 Lease Cycle Duration and Expiry Profile

In general, the typical lease term of the wholesales tenancies vary between 1 and 5 years and on normal local commercial terms with existing passing rentals, inclusive of property management fee, generally ranging between RMB113 per sq.m. and RMB437 per sq.m. with an overall average unit monthly net rental income of RMB241 per sq.m. for all the existing tenancies.

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

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Number** *(%)*	**By Gross Floor Area** *(%)*
0	1	6.3	4.2
1	2	31.6	28.9
2	3	11.7	12.2
3	4	50.2	54.4
4	5	0.2	0.3
		100.0	100.0

We understand that over 99% of the leases will expire on 31 December 2005.

In general, as advised by GZI, the typical lease terms of the signed new tenancies commencing on 1 January 2006 vary between 4 and 5 years and are on normal local commercial terms. The agreed average net monthly rentals of the signed new tenancies in 2006 for Levels 1 to 6 are generally ranging between RMB190 per sq.m. and RMB599 per sq.m. and projected net new monthly rentals for Levels 7 and 8 (assuming conversion to retail use) in 2006 are generally ranging between RMB131 per sq.m. and RMB160 per sq.m. The abovementioned rentals are exclusive of property management fee, with an average unit monthly net rental income of RMB473 per sq.m.

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

% of tenancies due to expire in each year	By Number	By Gross Floor Area
	(%)	*(%)*
2005	4.7	8.3
2009	45.0	26.7
2010	50.3	65.0
Total	100.0	100.0

3.12 Summary of Material Rent Review Provisions

We understand that the Subject Property has no major material rent review provisions. We note that over 99% of the leases will expire on 31 December 2005. According to the supplied documents and tenancy agreements, over 95% of the leases have been renewed commencing from 1 January 2006 and the lease terms vary between 4 to 5 years. The projected net rental income in 2006 is approximately RMB252,626,168 which is exclusive of property management fee. In our valuations, the renewed rentals have been taken into account.

We are not aware of any sub-leases or tenancies and any material options or rights of pre-emption which may affect the value of the Subject Property and we have considered the conversion of Levels 7 and 8 into retail use commencing from May 2006, as advised by GZI and we have considered this in our valuation in determining the reversionary rental income in Income Capitalisation Approach and the rental income projection of Discounted Cashflow Analysis.

3.13 Historic Outgoings

As advised by GZI, the current monthly property management fee paid by the tenants is RMB45 per sq.m. and the total property management income covers the total property management expenses.

We are of the opinion that the current property management fee is higher than the market level of similar developments in the locality. (See Section 3.14.2)

3.14 Property Management

3.14.1 *Tenancy Services Agreement*

A tenancy services agreement was entered into between the Manager, Partat Investment Limited (柏達投資有限公司) (the "Property Company") and White Horse Property Management Co. Ltd. (the "Leasing Agent") for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of White Horse Building) will be paid a remuneration of 3.0% per annum of the gross revenue ("Service Fees") receivable by the Property Company from the operation of the Subject Property. The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of White Horse Building, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Subject Property under the property management agreement.

3.14.2 *Property Management Fee*

As advised by the Manager, the current monthly management fees paid by the tenants is RMB45 per sq.m. and the monthly management fees payable by the tenants commencing from 1 January 2006 will be RMB50 per sq.m., which is higher than the market level of similar developments in the locality.

Name of Building	**Monthly Management fee** *(RMB/sq.m.)*
Xin Da Di Fashion Plaza (新大地服裝)	35
Jinbao Building of Foreign Clothing Trade (金寶(外貿)服裝批發市場)	30
Guangzhou Clothing Display Centre (廣州服裝滙展中心)	30
Guangan Knitting & Woolen Costume Market (廣安毛織服裝市場)	30

4. VALUATION

4.1 Income Capitalisation Approach

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

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

In this valuation approach, the total rental income is divided into the term income and 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 brought back to the date of valuation.

To bring the reversionary value back to the current date, we have used a present value rate which is the same as the reversionary yield for the particular component of the Subject Property. The present value is the current monetary value of future cash flows and reflects the opportunity cost of an investment in a similar asset which would be expected to return a similar remunerative return as the Subject Property.

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

For the Subject Property, the typical net monthly rental income and the projected rental income as at the date of valuation for Level 1 to Level 8 are as follows:-

Level	**Average Current Unit Gross Passing Monthly Rental Income Inclusive of Property Management Fees** *(RMB/sq.m.)* *(a)*	**Average Unit Net Monthly Rental Income (exclusive of Property Management Fees)** *(RMB/sq.m.)* *(b)*	**New Average Unit Monthly Passing Rental Income of Tenancy Agreements/ Projected New Rental Income in 2006, Both Exclusive of Property Management Fees** *(RMB/sq.m.)* *(c)*	**Compare (a) with (c) Between (Below or Above Market Rental Income)**
Level 1	384	340	599	(b) is lower than (c)
Level 2	373	359	572	(b) is lower than (c)
Level 3	323	278	524	(b) is lower than (c)
Level 4	203	158	366	(b) is lower than (c)
Level 5	155	110	361	(b) is lower than (c)
Level 6	140	95	190	(b) is lower than (c)
Level 7	63	18	160 (Projection)	(b) is lower than (c)
Level 8	97	52	131 (Projection)	(b) is lower than (c)

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

The current average unit net monthly rental income is generally 37% to 70% lower than the new average unit monthly passing rental income of each level for Levels 1 to 6. The current average unit net monthly rentals of Levels 7 and 8 are 89% and 60% lower than the new average unit monthly projected rental income since the two levels are currently occupied as warehouse and office respectively.

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

The details of the rental income comparables are as follows:

Retail Rental Income Comparables:

	Comparable 1	**Comparable 2**	**Comparable 3**	**Comparable 4**
Address	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)
District	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)
Date of Transaction	Oct-05	Oct-05	Oct-05	Sep-05
Unit	B202	B51	B123, B125, B126, B142, B143 & B145	101
Level	1	1	1	1
Gross Floor Area (sq.m.)	14.0	13.3	80.0	81.5
Date of Completion	2005	2005	2005	2005
Efficiency Ratio	45%	45%	45%	50%
Nature of Transaction	Transacted	Transacted	Asking	Transacted
Lease Term (year)	2	2	2 to 3	2
Lease Commencement Date	End of 2005	End of 2005	N/A	Sep-05
Lease Expiry Date	End of 2007	End of 2007	N/A	Sep-07
Net Rental Income on GFA (RMB)	11,200	11,970	64,000	48,900
Net Rental Income on GFA (RMB/sq.m.)	800	900	800	600
Adjusted Net Rental Income on GFA (RMB/sq.m.)	711	799	675	559

	Comparable 5	Comparable 6	Comparable 7	Comparable 8
Address	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)
District	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)
Date of Transaction	Oct-05	Sep-05	Oct-05	Oct-05
Unit	141	105	145	125
Level	1	1	1	1
Gross Floor Area (sq.m.)	81.4	55	25	35
Date of Completion	2005	2004	2004	2000
Efficiency Ratio	50%	65%	65%	55%
Nature of Transaction	Asking	Transacted	Asking	Asking
Lease Term (year)	2 to 3	2	2 to 3	2 to 3
Lease Commencement Date	N/A	Aug-05	N/A	N/A
Lease Expiry Date	N/A	Aug-07	N/A	N/A
Net Rental Income on GFA (RMB)	56,966	33,000	15,000	24,500
Net Rental Income on GFA (RMB/sq.m.)	700	600	600	700
Adjusted Net Rental Income on GFA (RMB/sq.m.)	620	533	566	537

	Comparable 9	Comparable 10	Comparable 11	Comparable 12
Address	Beijing Road (北京路步行街)	Zhan Nan Road (站南路)	Zhan Nan Road (站南路)	Zhan Nan Road (站南路)
District	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)
Date of Transaction	Oct-05	Jul-05	Jul-05	Jul-05
Unit	123	1102	1203	1301
Level	1	1	1	1
Gross Floor Area (sq.m.)	57.2	71.3	57.1	87.6
Date of Completion	2004	1990	1990	1990
Efficiency Ratio	55%	60%	60%	60%
Nature of Transaction	Asking	Transacted	Transacted	Transacted
Lease Term (year)	2	5	5	5
Lease Commencement Date	N/A	01-Jan-06	01-Jan-06	01-Jan-06
Lease Expiry Date	N/A	31-Dec-10	31-Dec-10	31-Dec-10
Net Rental Income on GFA (RMB)	45,760	45,418	38,630	59,305
Net Rental Income on GFA (RMB/sq.m.)	800	637	677	677
Adjusted Net Rental Income on GFA (RMB/sq.m.)	614	637	677	677

	Comparable 13	Comparable 14	Comparable 15	Comparable 16
Address	Zhan Nan Road (站南路)	Zhan Nan Road (站南路)	Huan Shi Xi Road (環市西路)	Zhan Nan Road (站南路)
District	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)
Date of Transaction	Jul-05	Jul-05	Oct-05	Oct-05
Unit	1321	1419	116	1079
Level	1	1	1	1
Gross Floor Area (sq.m.)	81.5	76.5	14	20
Date of Completion	1990	1990	1990's	2004
Efficiency Ratio	60%	60%	60%	60%
Nature of Transaction	Transacted	Transacted	Asking	Transacted
Lease Term (year)	5	5	1	2
Lease Commencement Date	01-Jan-06	01-Jan-06	N/A	Mid-2005
Lease Expiry Date	31-Dec-10	31-Dec-10	N/A	Mid-2007
Net Rental Income on GFA (RMB)	55,155	51,818	9,100	13,000
Net Rental Income on GFA (RMB/sq.m.)	677	677	650	650
Adjusted Net Rental Income on GFA (RMB/sq.m.)	677	677	713	675

We have had regard to sixteen comparables in deriving the rental income value of Level 1 of the Subject Property. Adjustments have been made for time, location, building quality, size, pedestrian flow and etc. The adjusted unit rental income values of these comparables range from RMB533/sq.m. to RMB799/sq.m. Taking the average of all the sixteen comparables will give a monthly unit rental income of approximately RMB650/sq.m. for Level 1 of the Subject Property. This rental income level supports the average rental income level of RMB599 per sq.m. for Level 1 of the Subject Property for the new tenancies commencing on January 2006 and therefore we have adopted the average rental income level for new tenancies of each level in our valuation.

Level	**New Rental Income of Tenancy Agreements/ Projected New Rental Income, Both Exclusive of Property Management Fees** *(RMB/sq.m.)*
Level 1	599
Level 2	572
Level 3	524
Level 4	366
Level 5	361
Level 6	190
Level 7	160
Level 8	131

By allowing different percentage of discount for different levels, the unit market rental income is shown below:

Level	**Discount Allowed** *(%)*	**Unit Market Rental** *(RMB/sq.m.)*
Level 1	0%	650
Level 2	5%	618
Level 3	15%	553
Level 4	40%	390
Level 5	45%	358
Level 6	70%	195
Level 7	75%	163
Level 8	80%	130

The existing monthly net rental income as at the date of valuation was RMB9,754,587 and it is anticipated that the development will maintain the current occupancy level of 100%, which is higher than the occupancy rate of similar type of buildings in the market.

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

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

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property. From the previous analysis, the unit market rental income for Level 1 of the retail podium is RMB650/sq.m. In Section 4.3, the unit market value for Level 1 is RMB73,000/sq.m. The market yield is approximately 10.5%. After the further deduction of 1% to reflect the fact that the majority of the new leases for the reversionary term have already been signed which means a more security of income, we have adopted 9.5% as the reversionary yield for the retail component of the Subject Property which is within the range of the market comparable transactions as follows:

Retail market:

Unit	Address	Gross Floor Area	Date of Transaction	Actual Transaction Price	Sale Price per sq.m.	Estimated Unit Annual Market Net Rental Income as at the Date of Transaction	Occupancy Status as at the date of Transaction	Market Yield
		(sq.m.)		*(RMB)*	*(RMB/sq.m.)*	*(RMB/sq.m.)* *(Note 1)*		*(Note 2)*
Whole	Confidential	35,000	End of 2004	265,000,000	7,571	796	20 years Sale and Leaseback	10.5%
Whole	Ti Yu Xi Road	1,147	Sept-04	51,608,075	44,994	4,752	Vacant	10.6%
B205	Confidential	15.6	Sept-05	1,244,800	79,795	9,600	Vacant	12.0%
B107	Confidential	16.5	Sept-05	1,405,050	85,155	10,260	Vacant	12.0%
Three shop units	Ti Yu Dong Road	463	Sept-04	10,645,780	22,993	2,688	Vacant	11.7%

Notes:

1) The estimated market net rental income is based on our analysis of recent lettings of comparable properties.

2) The market yield is the estimated market net rental income per annum divided by the actual transaction price.

The comparables were sourced from the Colliers International database and were calculated based on the comparable general location. Due to the limited number of whole building sales, sales of smaller units in the locality were also used.

We have valued the Subject Property at a value of HK$2,503,000,000.

The summary is as follows:

Property	Term Yield	Reversionary Yield	Value	Unit Rate on Gross Floor Area
			(HK$)	*(HK$/sq.m.)*
White Horse Building	8%	9.5%	2,503,000,000	49,861

4.2 Discounted Cash Flow Analysis

This is defined in the International Valuation Standards Committee (7th Edition), as a financial modeling technique based on explicit assumptions regarding the prospective cash flow to operating real 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 rental income stream associated with the properties. In the case of operating real properties, periodic cash flow is typically estimated as gross rental income less vacancy, bad debts, impact of taxes (stamp duty, urban real estate tax, flood prevention works maintenance fee and business tax), property management fees (for existing tenancies but not for new tenancies or projected rental income commencing from January 2006), service fees and other operating expenses. 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 investment income producing properties.

For the Subject Property, the terminal capitalisation rate within our calculation is 9%. This is based on our analysis of the term yields applicable in the marketplace as set out in Section 4.1 with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings. Based on the above, we consider that the market expectations are around 10% to 12% for both wholesale and retail properties. We note that the yield of 10-year Exchange Fund Notes issued by the Hong Kong Monetary Authority as at 30 September 2005 is in the order of 4.17%, indicating a risk premium of between 5.83% and 7.83%. Based on our analysis of comparable sales in the international market, the higher premium reflects the inherent investment risks associated with the PRC and the property risk. We consider that Hong Kong is the closest mature market to the PRC and it is more appropriate to adopt the Hong Kong risk free rate for the PRC property investment.

In arriving at the periodic cash flow prepared by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases. The adopted rental income growth rates are in line with the forecasts as detailed in the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

An annual vacancy allowance and allowance for bad debts have been considered within the portfolio. An annual vacancy allowance is about 1% for the Subject Property, which is estimated based on the current vacancy. With reference to the historical bad debts ratios, we consider that the bad debts allowance should be 0.5% of the net rent received. In the case of the White Horse Building units, there were no bad debts for the six months ended 30 June 2005.

We have made reference to the Building Condition Survey Report, which states that no immediate capital expenditure will be incurred as the Subject Property is maintained in a reasonable condition commensurate with its age. According to GZI, no large scale repair and maintenance from 2006 to 2015 is considered necessary. No deduction has been made for the expected repair and maintenance costs as we understand from GZI that the repair and maintenance costs, for maintaining the current condition of the Subject Property, are covered by the management fee paid by tenants. As advised by GZI, any costs incurred in non-conformities will be settled by GZI.

As advised by GZI, Levels 7 and 8 (originally occupied as warehouse and office) of the Subject Property will be converted into retail use commencing from May 2006. According to the information provided by GZI, the cost of such renovation is around HK$5.8 million and will be borne by GZI, therefore, we have not allowed any cost of renovation in our valuation.

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

In our calculation, we have not deducted any acquisition costs and disposal costs. We are of the opinion that these issues would be taken into account by a prospective purchaser.

In preparing our valuations for the Subject Property, we have had regard to asking or transacted rental income comparables within similar prime retail developments in the locality. For details, reference should be made to Section 4.1 of this report.

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

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

The growth rates are based on our local market research. We have also made reference to the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

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

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

No immediate capital expenditure is included as a projected outgoings item with reference to the Building Condition Survey Report.

Based on the above, we have valued the Subject Property at a value of HK$2,580,000,000 taking account of the outgoings, taxes and other cost items.

The summary is as follows:

Property	Capitalisation Rate	Discount Rate	Value *(HK$)*	Unit Rate on Gross Floor Area *(HK$/sq.m.)*
White Horse Building	9%	11%	2,580,000,000	51,395

4.3 Sales Comparison Approach

In the Sales Comparison Approach, we have considered the sales of similar properties and related market data and established a value by adjustment of the comparables. In general, the Subject Property is compared with sales of similar properties that have been transacted in the open market.

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

Adjustments have been made for various factors to the evidence such as location, efficiency and time. The details are as follows.

	Comparable 1	Comparable 2	Comparable 3
Address	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)	Beijing Road (北京路步行街)
District	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)	Yue Xiu District (越秀區)
Date of Transaction	Sep-05	Sep-05	Oct-05
Unit	B205	B107	B93, B95, B108 & B109
Level	1	1	1
Gross Floor Area (sq.m.)	15.6	16.5	90.7
Date of Completion	2005	2005	2005
Efficiency Ratio	45%	45%	45%
Nature of Transaction	Transacted	Transacted	Asking
Asking/Transacted Price on GFA (RMB)	1,244,800	1,405,050	8,163,000
Asking/Transacted Price on GFA (RMB/sq.m.)	79,795	85,155	90,000
Adjusted Unit Rate on GFA (RMB/sq.m.)	71,200	75,650	75,600

	Comparable 4	Comparable 5	Comparable 6
Address	Beijing Road (北京路步行街)	Shang Xia Jiu Road (上下九路步行街)	Beijing Road (北京路步行街)
District	Yue Xiu District (越秀區)	Li Wan District (荔灣區)	Yue Xiu District (越秀區)
Date of Transaction	Oct-05	Jul-04	Dec-04
Unit	B123, B125, B126, B142, B143 & B145	N/A	Front shop
Level	1	1	1
Gross Floor Area (sq.m.)	80.0	350	313
Date of Completion	2005	2000's	1990's
Efficiency Ratio	45%	65%	85%
Nature of Transaction	Asking	Transacted	Transacted
Asking/Transacted Price on GFA (RMB)	7,200,000	32,508,000	45,385,000
Asking/Transacted Price on GFA (RMB/sq.m.)	90,000	92,880	145,000
Adjusted Unit Rate on GFA (RMB/sq.m.)	75,600	62,230	78,300

Adjustments have been made based on our own judgment and knowledge of the market. We have had regard to six comparables in deriving the market value of Level 1 of the Subject Property. Adjustments have been made for time, location, building quality, size, pedestrian flow and etc. The adjusted unit market values of these comparables range from RMB62,230/sq.m. to RMB78,300/sq.m. Taking the average of all the six comparables will give a unit market value of approximately RMB73,000/sq.m. for Level 1 of the podium of the Subject Property.

By allowing different percentage of discount for different levels, the unit market value for different levels is shown below:

Level	**Discount Allowed** *(%)*	**Unit Market Value** *(RMB/sq.m.)*
Level 1	0%	73,000
Level 2	5%	69,350
Level 3	15%	62,050
Level 4	40%	43,800
Level 5	45%	40,150
Level 6	70%	21,900
Level 7	75%	18,250
Level 8	80%	14,600

Based on the above, we have valued the Subject Property at a value of HK$2,303,000,000 taking no account of outgoings on the structure, taxes and other landlords costs.

The summary is as follows:

Property	**Value** *(HK$)*	**Unit Rate on Gross Floor Area** *(HK$/sq.m.)*
White Horse Building	2,303,000,000	45,877

4.4 Valuation Comment

We have noted that for a certain portion of the Subject Property the existing usage is different from the usage as mentioned in Real Estate Title Certificates according to the PRC Legal Opinion. The details and their respective valuation bases are listed in the table below. For the purposes of our valuation, we have valued the Subject Property on this basis:

Unit	Usage in Real Estate Title Certificate	Existing Usage	Valuation Basis for Existing Tenancy	Valuation Basis After Expiry of Tenancy
Level 8	Office	Office	Office	Retail
Level 7	Office	Warehouse	Warehouse	Retail
Level 6	Office	Retail	Retail	Retail
Level 5	Office	Retail	Retail	Retail
Level 4	Portion as office and the remaining portion as commercial	Retail	Retail	Retail
Levels 1-3	Commercial	Retail	Retail	Retail
Lower Ground Level	Storage	Common Area	Not Applicable	Not Applicable

As advised by GZI, the Lower Ground Level, (comprising mainly common area, including staircases) as well as an area of 70.1 sq.m. on Level 8 (occupied by White Horse Property Management Company as property manager of the Subject Property) are regarded as non-lettable area. Therefore, we have not attributed any value to the Lower Ground Level and the area of 70.1 sq.m. on Level 8 of the Subject Property.

5 VALUATION SUMMARY

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

Valuation Method	**Value** *(HK$)*
Income Capitalisation	2,503,000,000
Discounted Cash Flow	2,580,000,000
Sales Comparison	2,303,000,000

Based on our primary valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property (the property interest to be disposed by GZI Group) in its existing state as at the date of valuation was **HONG KONG DOLLARS TWO THOUSAND FIVE HUNDRED FORTY-ONE MILLION AND FIVE HUNDRED THOUSAND ONLY (HK$2,541,500,000)** assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of values derived using by the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Valuation of various units of the Subject Property (the "Subject Property") located in Fortune Plaza, Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, Guangdong, The People's Republic of China (the "PRC") for Guangzhou Investment Company Limited (hereinafter referred to as "GZI") and its subsidiaries (hereinafter together referred to as the "GZI Group")

1. SUMMARY OF THE SUBJECT PROPERTY

According to the PRC Legal Opinion, 83 Real Estate Title Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Moon King Limited (金峰有限公司)
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	The zoning of the underlying land of Fortune Plaza was described as "commercial/office".
4.	Interest Valued	:	Leasehold interest of the Subject Property.
5.	Property Description	:	The Subject Property comprises a portion of a 6-storey commercial podium and two office towers erected above it. (See Section 2.5 below)
6.	Gross Floor Area ("GFA") of the Subject Property	:	Total - 40,356.2 sq.m. Office - 36,503.1 sq.m. Retail - 3,853.1 sq.m.
7.	Lease Term	:	Levels 1-5, Level 37 of East Tower and Level 27 of West Tower — 40 years from 26 November 2002 Levels 8-9, 11-14, 19, 25-28, 34-36 of East Tower and Levels 8-19, 24-26 of West Tower — 50 years from 26 November 2002
8.	Usage	:	Levels 1-5, Level 37 of East Tower and Level 27 of West Tower — Commercial Levels 8-9, 11-14, 19, 25-28, 34-36 of East Tower and Levels 8-19, 24-26 of West Tower — Office
9.	Internal Floor Area of the Subject Property	:	30,752.3 sq.m.
10.	Gross Rentable Area of the Subject Property	:	40,356.2 sq.m.
11.	Construction Completion Date of Fortune Plaza	:	2003

12.	Valuation Approach	:	Income Capitalisation Approach including Discounted Cash Flow Analysis, cross-checked by the Sales Comparison Approach
13.	Date of Valuation	:	30 September 2005
14.	Market Value in existing state as at the Date of Valuation	:	HK$545,000,000
15.	Unit Value on Gross Floor Area	:	HK$13,505 per sq.m.
16.	Net Passing Income as at the Date of Valuation	:	RMB34,884,540 per annum
17.	Fully Leased Net Income as at the Date of Valuation	:	RMB49,234,404 per annum
18.	Estimated Market Rental Income as at the Date of Valuation	:	RMB54,835,620 per annum
19.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
20.	Exchange Rate as at the Date of Valuation	:	HK$1 = RMB1.043
21.	Term Yield	:	Office: 7.0% Retail: 9.5%
22.	Reversionary Yield	:	Office: 9.0% Retail: 11.5%
23.	Occupancy Rate as at the Date of Valuation	:	Office: 83.5% Retail: 14.9%
24.	Vacancy Allowance	:	Office: 5% Retail: 1%
25.	Market Comment	:	We consider the marketability of the Subject Property to be reasonable in view of its location and accessibility.

Note: The usage is based on the Real Estate Title Certificates and the PRC Legal Opinion.

2. THE SUBJECT PROPERTY

2.1 Situation and Locality

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

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

2.2 Surrounding Development and Environmental Issues

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

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

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

2.3 Availability of and Access to Public Transport

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

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

2.4 Car Accessibility and Road Frontage

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

Travelling time to major areas of the City through driving:

Baiyun International Airport	45 minutes
Teem Plaza	1 minutes
Guangzhou East Train Station	5 minutes

2.5 Description of the Development

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

The area breakdown of Fortune Plaza is summarized as below:

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

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

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

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

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

2.6 Portion of Interest to be Disposed by GZI Group

GZI Group is disposing a portion of the development and the details of the interest to be disposed are listed below:

No.	Property	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
	Podium, Ti Yu Dong Road			
1.	No. 118, Unit 109	Commercial	1,007.4	968.9
2.	No. 118, Level 2	Commercial	2,845.7	2,275.8
3.	No. 118, Level 3	Commercial (See Note 1)	4,275.1	3,593.0
4.	No. 118, Level 4	Commercial (See Note 1)	4,275.1	3,593.0
5.	No. 118, Level 5	Commercial (See Note 1)	4,275.1	3,593.0
	East Tower, Ti Yu Dong Road			
6.	No. 116, Unit 801	Office	180.2	115.0
7.	No. 116, Unit 802	Office	124.7	79.5
8.	No. 116, Unit 803	Office	188.8	120.5
9.	No. 116, Unit 805	Office	191.7	122.3
10.	No. 116, Unit 806	Office	124.8	79.6
11.	No. 116, Unit 808	Office	188.8	120.5
12.	No. 116, Unit 903	Office	188.8	120.5
13.	No. 116, Unit 905	Office	191.7	122.3
14.	No. 116, Unit 906	Office	124.8	79.6
15.	No. 116, Unit 908	Office	188.8	120.5
16.	No. 116, Unit 1101	Office	180.2	115.0
17.	No. 116, Unit 1102	Office	124.7	79.6
18.	No. 116, Unit 1108	Office	188.8	120.5
19.	No. 116, Unit 1201	Office	179.7	115.2
20.	No. 116, Unit 1202	Office	125.0	80.2

No.	Property	Usage	Gross Floor Area (sq.m.)	Internal Floor Area (sq.m.)
21.	No. 116, Unit 1203	Office	188.7	121.0
22.	No. 116, Unit 1205	Office	191.7	122.9
23.	No. 116, Unit 1206	Office	125.1	80.2
24.	No. 116, Unit 1208	Office	188.7	121.0
25.	No. 116, Unit 1301	Office	179.7	115.2
26.	No. 116, Unit 1302	Office	125.0	80.2
27.	No. 116, Unit 1303	Office	188.7	121.0
28.	No. 116, Unit 1305	Office	191.7	122.9
29.	No. 116, Unit 1306	Office	125.1	80.2
30.	No. 116, Unit 1308	Office	188.7	121.0
31.	No. 116, Unit 1401	Office	179.7	115.2
32.	No. 116, Unit 1402	Office	125.0	80.2
33.	No. 116, Unit 1403	Office	188.7	121.0
34.	No. 116, Unit 1405	Office	191.7	122.9
35.	No. 116, Unit 1406	Office	125.1	80.2
36.	No. 116, Unit 1408	Office	188.7	121.0
37.	No. 116, Unit 1901	Office	180.2	115.0
38.	No. 116, Unit 1902	Office	124.7	79.5
39.	No. 116, Unit 1903	Office	188.8	120.5
40.	No. 116, Unit 1905	Office	191.7	122.3
41.	No. 116, Unit 1906	Office	124.8	79.6
42.	No. 116, Unit 1908	Office	188.8	120.5
43.	No. 116, Units 2501 & 2601	Office	1,586.4	1,240.8
44.	No. 116, Unit 2705	Office	188.7	121.8
45.	No. 116, Unit 2801	Office	180.3	115.4
46.	No. 116, Unit 3401	Office	180.4	115.0
47.	No. 116, Units 3501 & 3601	Office	1,392.2	1,029.3
48.	No. 116, Level 37	Commercial (See Note 2)	302.2	181.0
	West Tower, Ti Yu Dong Road			
49.	No. 114, Level 8	Office	997.7	779.6
50.	No. 114, Level 9	Office	997.7	779.6
51.	No. 114, Level 10	Office	997.7	779.6
52.	No. 114, Unit 1101	Office	189.3	120.5
53.	No. 114, Unit 1102	Office	125.0	79.5
54.	No. 114, Unit 1103	Office	179.7	114.4
55.	No. 114, Unit 1105	Office	189.3	120.5
56.	No. 114, Unit 1106	Office	125.0	79.6
57.	No. 114, Unit 1108	Office	189.3	120.5

No.	Property	Usage	Gross Floor Area *(sq.m.)*	Internal Floor Area *(sq.m.)*
58.	No. 114, Unit 1201	Office	189.0	122.0
59.	No. 114, Unit 1202	Office	125.7	81.1
60.	No. 114, Unit 1203	Office	179.4	115.8
61.	No. 114, Unit 1205	Office	189.0	122.0
62.	No. 114, Unit 1206	Office	125.7	81.1
63.	No. 114, Unit 1208	Office	189.0	122.0
64.	No. 114, Unit 1301	Office	189.0	122.0
65.	No. 114, Unit 1302	Office	125.7	81.1
66.	No. 114, Unit 1303	Office	179.4	115.8
67.	No. 114, Unit 1305	Office	189.0	122.0
68.	No. 114, Unit 1306	Office	125.7	81.1
69.	No. 114, Unit 1308	Office	189.0	122.0
70.	No. 114, Unit 1401	Office	189.0	122.0
71.	No. 114, Unit 1402	Office	125.7	81.1
72.	No. 114, Unit 1403	Office	179.4	115.8
73.	No. 114, Level 15	Office	997.7	779.6
74.	No. 114, Level 16	Office	997.7	779.6
75.	No. 114, Level 17	Office	997.7	779.6
76.	No. 114, Level 18	Office	997.7	779.6
77.	No. 114, Unit 1902	Office	125.9	81.6
78.	No. 114, Unit 1903	Office	179.3	116.2
79.	No. 114, Unit 1905	Office	188.8	122.4
80.	No. 114, Unit 1906	Office	125.9	81.6
81.	No. 114, Units 2401 & 2501	Office	1,591.4	1,243.6
82.	No. 114, Level 26	Office	646.8	446.0
83.	No. 114, Level 27	Commercial (See Note 2)	335.8	180.4
		Total:	40,356.2	30,752.3

Note 1: The breakdown of the gross floor area and the usage of the Subject Property is based on the Real Estate Title Certificates and the PRC Legal Opinion. According to GZI, level 3, 4 and 5 are used as office.

Note 2: According to GZI, Level 37 of East Tower and Level 27 of West Tower are used as offices.

2.7 Specification, Services and Finishes of the Development

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

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

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

The building is maintained in a reasonable condition commensurate to its age. The building is managed by Guangzhou Yicheng Property Management Ltd. and it is responsible for collection of all management fees from the tenants and dealing with the day to day operations and outgoings relevant to the development.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system and fire extinguishers throughout the building. For further information on building condition, reference should be made to the Building Condition Survey Report.

2.8 Building Condition of the Development

According to the Building Condition Survey Report, the building is maintained in a reasonable condition. There are minor defects noted and the condition is generally in line with the building age. No structural defects have been observed and there is no major non-conformity at the time of inspection in September 2005. For further information of the building condition, reference should be made to the Building Condition Survey Report.

2.9 Current Rental Income

As at the date of valuation, approximately 85% or 3,280.6 sq.m. of retail portion were vacant and approximately 17% or 6,038.7 sq.m. of the office portion of the Subject Property were vacant.

According to the supplied rent roll as at the date of valuation, for which a sample of 20% of leases (which is equivalent to about 25% of the total passing rental income) were checked by us and were found to be in order, the existing net monthly rental income and equivalent annual net rental income was as follows:

Portion	**Gross Floor Area** *(sq.m.)*	**Monthly Net Rental Income** *(RMB)*	**Annual Net Rental Income** *(RMB)*
Retail Portion	572.5	79,710	956,520
Office Portion	30,464.4	2,827,335	33,928,020

As at the date of valuation, for the retail portion, the retail units were leased to 1 tenant. For office portion, the office units were leased to 47 tenants.

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

As at the date of valuation, the top 10 major tenancy agreements by rental income within the Subject Property occupied 43.5% of the total gross floor area and were responsible for 54.6% of the net rental income received. Details of the tenancy agreements are as follows:

Unit	**Gross Floor Area** *(sq.m.)*	**Net Monthly Rental Income** *(RMB)*	**Unit Net Monthly Rental Income** *(RMB/ sq.m.)*	**Estimated Unit Net Monthly Rental Income** *(RMB/ sq.m.)*	**% of Current Monthly Net Rental Income**	**Lease Term** *From*	*To*
118, Level 4	4,275.1	354,833	83	100	12.2%	5/1/2005	1/31/2008
118, Level 5	4,275.1	354,833	83	100	12.2%	2/16/2005	1/31/2008
118, 301	2,000.0	150,000	75	100	5.2%	7/21/2005	7/20/2007
114, Level 13	997.7	117,724	118	110	3.9%	9/20/2005	9/30/2008
114, Level 14	999.0	104,896	105	110	3.6%	8/9/2005	9/7/2007
114, Level 12	997.7	104,754	105	110	3.6%	9/1/2005	8/31/2007
114, Level 18	997.7	104,754	105	110	3.6%	4/1/2004	3/31/2007
116, Level 12	999.0	102,898	103	110	3.5%	8/10/2005	8/9/2008
114, Level 16	997.7	99,766	100	110	3.4%	4/12/2004	4/11/2007
114, Level 15	997.7	97,771	98	110	3.4%	5/10/2004	5/9/2009

The total current monthly net passing rental income received and the total estimated monthly market rental income as at the date of valuation were RMB2,907,045 and RMB4,569,635 respectively. The total current net passing rental income was 36% lower than the total estimated market rental income. The estimated unit net monthly rental income is based on the unit market rental income of different levels for retail and office portions of the Subject Property in Section 3.1.

For the top 10 major tenancy agreements by rental income, the current unit net passing rental income is also generally lower than the estimated unit market rental income.

As advised by GZI, the followings are details of tenancy agreements in the Subject Property of parties who will be regarded as related parties of GZI Real Estate Investment Trust upon its inception:

Unit	Gross Floor Area	Net Monthly Rental Income	Unit Net Monthly Rental Income	Estimated Unit Net Monthly Rental Income	% of Current Monthly Net Rental Income	Lease Term	
						From	*To*
	(sq.m.)	*(RMB)*	*(RMB/ sq.m.)*	*(RMB/ sq.m.)*			
118, Level 4	4,275.1	354,833	83	100	12.2%	5/1/2005	1/31/2008
118, Level 5	4,275.1	354,833	83	100	12.2%	2/16/2005	1/31/2008

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

2.10 Occupancy Rate

According to the PRC Legal Opinion, the majority of the Subject Property with a total floor area of approximately 31,036.6 sq.m. was leased to various tenants as at the date of valuation. This equates to an occupancy rate of about 76.9% of the Subject Property to be disposed by GZI Group.

2.11 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies vary between 2 and 6 years and are on normal local commercial terms with agreed net monthly rentals generally ranging between RMB40 per sq.m. and RMB140 per sq.m. with an average unit monthly net rental income of RMB139 per sq.m. and RMB93 per sq.m. for the retail and office portions respectively.

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

Lease term greater than *(year)*	**Lease term less than or equal to** *(year)*	**By Number** *(%)*	**By Gross Floor Area** *(%)*
0	1	1.8	0.3
1	2	45.5	22.0
2	3	40.0	44.2
3	4	7.3	5.6
4	5	5.4	4.7
Vacant		n.a.	23.0
Total		100.0	100.0

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

No. of tenancies due to expire in each year	**By Number** *(%)*	**By Gross Floor Area** *(%)*
2005	3.8	0.9
2006	30.2	7.6
2007	49.0	34.8
2008	13.2	30.0
2009	3.8	3.7
Vacant	n.a.	23.0
Total	100.0	100.0

For Level 1 of retail portion, Unit 109 was vacant as at the date of valuation.

For Level 2 of retail portion, the occupied unit had a lease term for 2 years and 10 months, on normal local commercial terms with agreed net monthly rental income at RMB139 per sq.m., whilst the other units were vacant as at the date of valuation.

For Levels 3 to 5 of the retail portion, they are occupied as offices and as advised by GZI, these levels will be leased as offices in the long run. The typical lease terms of the tenancies varied between 2 and 3 years and were on normal local commercial terms. The agreed net monthly rentals of Level 3 was RMB75 per sq.m. whereas for Levels 4 and 5 was approximately RMB83 per sq.m.

For office portion, the typical lease terms of the tenancies varied between 2 and 6 years and were on normal local commercial terms with agreed net monthly rentals as at the date of valuation generally ranging between RMB40 per sq.m. and RMB140 per sq.m., with an average of RMB93 per sq.m.

2.12 Summary of Material Rent Review Provisions

The Subject Property has the following material rent review provisions:

Level	Gross Floor Area (sq.m.)	Net Monthly Rental Income (RMB)	Lease Term From	Lease Term To
Unit on Level 16	997.7	94,778	5/12/2004	4/11/2005
		99,766	4/12/2005	4/11/2006
		104,754	4/12/2006	4/11/2007
Unit on Level 12	999.0	Rent Free	8/10/2005	10/9/2005
		102,898	10/10/2005	8/9/2007
		108,043	8/10/2007	8/9/2008

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

2.13 Historic Outgoings

As advised by GZI, the current monthly property management fees paid by the tenants for the retail and office portions are RMB35 per sq.m. and RMB25 per sq.m. respectively and the property management income covers all the total property management expenses.

We are of the opinion that the current property management fee is in line with the office market level of similar developments in the locality. (See Section 2.14.3)

2.14 Property Management

2.14.1 *Tenancy Services Agreement*

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

2.14.2 *Deed of Mutual Covenant (業主公約)*

According to the PRC Legal Opinion, the Deed of Mutual Covenant was passed in a resolution of the owners' meeting of Fortune Plaza on 23rd June, 2005. The Deed of Mutual Covenant comprises provisions relating to the rights and obligations of the individual owners, treatments for non-compliance of certain provisions and other issues. The Deed of Mutual Covenant is legally binding, valid and enforceable.

2.14.3 *Property Management Fee*

As advised by GZI, the current monthly property management fees paid by the tenants for the retail and office portions are RMB35 per sq.m. and RMB25 per sq.m. respectively which is in line with the market level of similar developments in the locality.

Name of Building	**Management fee for Retail Portion** *(RMB/sq.m.)*	**Management fee for Office Portion** *(RMB/sq.m.)*
Gao Sheng Building (高盛大廈)	Not Applicable	27
Times Square (時代廣場)	36	26
Goldlion Building (金利來大廈)	33	29
Pingan Insurance Building (平安保險大廈)	36	27

3. VALUATION

3.1 Income Capitalisation Approach

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

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

In this valuation approach, the total rental income is divided into the term income and 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 brought back to the date of valuation.

We have applied individual yields to the retail and office components of the Subject Property, with a higher yield for the retail components to reflect the perceived higher levels of risk associated with the retail property market which is less mature and more volatile compared to the office market in Guangzhou (i.e. the retail yield is higher than office yield).

To bring the reversionary value back to the current date, we have used a present value rate which is the same as the reversionary yield for the particular component of the Subject Property. The present value is the current monetary value of future cash flows and reflects the opportunity cost of an investment in a similar asset which would be expected to return a similar remunerative return as the Subject Property.

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

For Level 1 of retail portion, we are of the opinion that the market rental income level was RMB290 per sq.m. as at the date of valuation.

For Level 2 of retail portion, Unit 202 was vacant and the net monthly passing rental income of Unit 201 as at the date of valuation was RMB139 per sq.m. We are of the opinion that the current passing rental income was slightly lower than the market level of RMB145 per sq.m. as at the date of valuation.

Levels 3 to 5 of the retail portion are occupied as offices and as advised by GZI, these levels will be leased as offices in the long run and therefore, we have valued them in their existing usage as offices. The average net monthly passing rental income for Level 3 is RMB75 per sq.m. whereas for Levels 4 and 5 is RMB83 per sq.m. We are of the opinion that the current passing rentals of Levels 3, 4 & 5 were lower than the average market level of RMB116 per sq.m.

For office portion, the typical net monthly passing rentals generally ranging between RMB40 per sq.m. and RMB140 per sq.m. and the average is RMB93 per sq.m. We are of the opinion that the current passing rentals were slightly lower than the average market level of RMB110 per sq.m. as at the date of valuation.

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 2004 and we consider the comparables are sufficient to derive the market value of the Subject Property.

The details of the rentals comparables are as follows:

Retail Rental Income Comparables

	Comparable1	**Comparable 2**	**Comparable 3**	**Comparable 4**	**Comparable 5**
Address	Lin He Xi Road	Lin He Xi Road	Ti Yu East Road	Tian He Road	Tian He Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Dec-04	Dec-04	Nov-04	May-04	Apr-04
Unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit
Level	1	1	Podium	1	1
Gross Floor Area (sq.m.)	505.0	223.8	Around 1,000	30.0	45.5
Date of Completion	2004	2004	2003	1995	1995
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted
Lease Term (year)	5.00	6.00	6.00	6.00	6.00
Lease Commencement Date	1-Nov-04	16-Oct-04	15-Nov-04	26-May-04	Jun-04
Lease Expiry Date	31-Oct-09	15-Oct-10	14-Oct-10	25-May-10	Jun-10
Net Monthly Rental Income on GFA (RMB)	75,750	31,329	282,080	37,800	45,500
Net Monthly Rental Income on GFA (RMB/sq.m.)	150	140	282	1,260	1,000
Adjusted Net Monthly Rental Income on GFA (RMB/sq.m.)	162	128	294	474	376

We have had regard to five comparables in deriving the rental income of Level 1 of podium of the Subject Property. Adjustments have been made for time, location, building quality, size, pedestrian flow and etc. The adjusted unit rental income of these comparables range from approximately RMB128/sq.m. to RMB474/sq.m. Taking the average of all the five comparables will give a monthly unit rental income of RMB290/sq.m. By allowing 50% discount to reflect the floor level difference for Level 2, the monthly unit rental income is RMB145/sq.m.

Office Rental Income Comparables

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable 6
Address	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Aug-05	Aug-05	Sep-05	Sep-05	Aug-05	Aug-05
Unit	Two office units	An office unit	An office unit	An office unit	An office unit	An office unit
Level	11	12	12	13	14	28
Gross Floor Area (sq.m.)	234.3	999.0	997.7	997.7	999.0	180.4
Date of Completion	2003	2003	2003	2003	2003	2003
Efficiency Ratio	71%	71%	71%	71%	71%	71%
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Lease Term (year)	2.02	3.00	2.00	3.03	2.00	2.00
Lease Commencement Date	25-Aug-05	10-Aug-05	01-Sep-05	20-Sep-05	08-Sep-05	01-Aug-05
Lease Expiry Date	31-Aug-07	09-Aug-08	31-Aug-07	30-Sep-08	07-Sep-07	31-Jul-07
Net Rental Income on GFA (RMB)	25,771	102,898	104,754	117,724	104,896	19,832
Net Rental Income on GFA (RMB/sq.m.)	110	103	105	118	105	110
Adjusted Net Rental Income on GFA (RMB/sq.m.)	110	103	105	118	105	110

All the Comparables 1 to 6 are situated within Fortune Plaza and were transacted recently. Taking the average of the adjusted unit rate of Comparables 1 to 6, the unit rental income is approximately RMB110/sq.m. By allowing an upward adjustment of 5% to reflect the floor level difference for levels 3, 4 and 5, the monthly unit rental income is RMB116/sq.m.

The existing monthly net rental income as at the date of valuation was RMB2,907,045 and it is anticipated that the Subject Property will maintain the current occupancy level of around 77% which is in line with the occupancy rate of similar type of buildings in the market.

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

The term yield is used for capitalisation of the current passing rental income as at the date of valuation whilst the reversionary yield is used to convert reversionary rental income.

This approach is generally used in valuing income producing properties.

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property. From the previous analysis, the unit market rental income for Level 1 of the retail podium is RMB290/sq.m. In Section 3.3, the unit market value for Level 1 is RMB30,000/sq.m. The market yield is 11.6%. We have adopted 11.5% as the reversionary yield for the retail component of the Subject Property which is in line with the market comparable transactions as follows:

Retail market:

Unit	**Address**	**Gross Floor Area** *(sq.m.)*	**Date of Transaction**	**Actual Transaction Price** *(RMB)*	**Sale Price per sq.m.** *(RMB/sq.m.)*	**Estimated Unit Annual Market Net Rental Income as at the Date of Transaction** *(RMB/sq.m.) (Note 1)*	**Occupancy Status as at the date of Transaction**	**Market Yield** *(Note 2)*
Whole	Confidential	35,000	End of 2004	265,000,000	7,571	796	20 years Sale and Leaseback	10.5%
Whole	Ti Yu Xi Road	1,147	Sept-04	51,608,075	44,994	4,752	Vacant	10.6%
B205	Confidential	15.6	Sept-05	1,244,800	79,795	9,600	Vacant	12.0%
B107	Confidential	16.5	Sept-05	1,405,050	85,155	10,260	Vacant	12.0%
Three shop units	Ti Yu Dong Road	463	Sept-04	10,645,780	22,993	2,688	Vacant	11.7%

Notes:

1) The estimated market net rental income is based on our analysis of recent lettings of comparable properties.

2) The market yield is the estimated market net rental income per annum divided by the actual transaction price.

From the previous analysis, the unit market rental income for office portion is RMB110/sq.m. In Section 3.3, the unit market value for office portion is RMB14,000/sq.m. The market yield is 9.4%. We have adopted 9.0% as the reversionary yield for the office component which is in line with the market comparable transactions as follows:

Office market:

Unit	Address	Gross Floor Area *(sq.m.)*	Date of Transaction	Actual Transaction Price *(RMB)*	Sale Price per sq.m. *(RMB/sq.m.)*	Estimated Unit Annual Market Net Rental Income as at the Date of Transaction *(RMB/sq.m.)* *(Note 1)*	Occupancy Status as at the date of Transaction	Market Yield *(Note 2)*
Whole	Ti Yu Xi Road	1,450.8	Sept-04	14,508,043	10,000	1,080	Vacant	10.8%
An office unit	Ti Yu Dong Road	188.8	Nov-04	2,529,920	13,400	1,128	Vacant	8.4%
An office unit	Ti Yu Dong Road	191.7	Nov-04	2,454,272	12,803	1,128	Vacant	8.8%
An office unit	Ti Yu Dong Road	189.5	Dec-04	2,822,805	14,896	1,260	Vacant	8.5%
An office unit	Lin He Xi Road	229.3	Aug-05	2,866,125	12,499	1,512	Vacant	12.1%

Notes:

1) The estimated market net rental income is based on our analysis of recent lettings of comparable properties.

2) The market yield is the estimated market net rental income per annum divided by the actual transaction price.

For retail and office markets, the comparables were sourced from the Colliers International database and were calculated based on the comparable general location. Due to the limited number of whole building sales, sales of smaller units in the locality were also used.

We have valued the Subject Property at a value of HK$559,000,000.

The summary is as follows:

Property	Term Yield	Reversionary Yield	Value *(HK$)*	Unit Rate on Gross Floor Area *(HK$/sq.m.)*
Retail portion	9.5%	11.5%	62,000,000	16,091
Office portion	7.0%	9.0%	497,000,000	13,615
		Total:	559,000,000	13,852

3.2 Discounted Cash Flow Analysis

This is defined in the International Valuation Standards Committee (7th Edition), as a financial modeling technique based on explicit assumptions regarding the prospective cash flow to operating real 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 rental income stream associated with the properties. In the case of operating real properties, periodic cash flow is typically estimated as gross rental income less vacancy, bad debts, impact of taxes (stamp duty, urban real estate tax, flood prevention works maintenance fee and business tax), service fees and other operating expenses. 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 investment income producing properties.

For the Subject Property, the terminal capitalisation rate for office portion within our calculation is 7.5% and the terminal capitalisation rate for retail portion is 9.5%. This is based on our analysis of the term yields applicable in the marketplace as set out in Section 3.1 with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings. Based on the above, we consider that the market expectations are around 10% to 12% for both office and retail properties. We note that the yield of 10-year Exchange Fund Notes issued by the Hong Kong Monetary Authority as at 30 September 2005 is in the order of 4.17%, indicating a risk premium of between 5.83% and 7.83%. Based on our analysis of comparable sales in the international market, the higher premium reflects the inherent investment risks associated with the PRC and the property risk. We consider that Hong Kong is the closest mature market to the PRC and it is more appropriate to adopt the Hong Kong risk free rate for the PRC property investment.

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. The adopted rental income growth rates are in line with the forecasts as detailed in the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

An annual vacancy allowance and allowance for bad debts have been considered within the portfolio. An annual vacancy allowance is about 1% and 5% for retail and office components respectively, which is made reference to the current vacancy. With reference to the historical bad debts ratios, we consider that the bad debts allowance should be 1% of the net rent received. In the case of the Fortune Plaza units, the bad debt ratio was 2.7% for the six months ended 30 June 2005. There were no bad debt in the other periods.

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

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

In our calculation, we have not deducted any acquisition costs and disposal costs. We are of the opinion that these issues would be taken into account by a prospective purchaser.

In preparing our valuations for the Subject Property, we have had regard to asking or transacted rental income comparables within similar prime office and retail developments in the locality. For details, reference should be made to Section 3.1 of this report.

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

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

The growth rates are based on our local market research. We have also made reference to the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

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

Projected Outgoings Items	**Projected Outgoings**
Service Fees based on the tenancy services agreement	4% of gross rental income
Cost for Large Scale Repair & Maintenance as advised by GZI	Nil in 2005
	Nil in 2006
	RMB75,300 in 2007
	RMB256,000 in 2008
	RMB366,400 in 2009
	RMB85,300 in 2010
	RMB125,500 in 2011
	RMB145,600 in 2012
	RMB145,600 in 2013
	RMB376,400 in 2014
	RMB291,000 in 2015
Sundry Expenses	0.2% of rental income
Insurance	Fixed Amount
Business Tax	5.0% of rental income
Flood Prevention Works Maintenance Fee	0.09% of rental income
Urban Real Estate Tax	original value of building x 70% x 1.2%
Stamp Duty	0.1% of gross rental income

No immediate capital expenditure is included as a projected outgoings item with reference to the Building Condition Survey Report.

Based on the above, we have valued the Subject Property at a value of HK$531,000,000 taking account of outgoings on the taxes and cost items.

The summary is as follows:

Property	**Capitalisation Rate**	**Discount Rate**	**Value** *(HK$)*	**Unit Rate on Gross Floor Area** *(HK$/sq.m.)*
Retail portion	9.5%	11%	92,000,000	23,877
Office portion	7.5%	11%	439,000,000	12,026
		Total:	531,000,000	13,158

3.3 Sales Comparison Approach

In the Sales Comparison Approach, we have considered the sales of similar properties and related market data and established a value by adjustment of the comparables. In general, the Subject Property is compared with sales of similar properties that have been transacted in the open market.

In preparing our valuations of the Subject Property, we have had regard to asking or transacted comparables within similar prime office developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality in 2004 and we consider the comparables are sufficient to derive the market value of the Subject Porperty.

Adjustments have been made for various factors to the evidence such as location, building age, efficiency and time. The details are as follows.

Retail Sales Comparables

	Comparable 1	**Comparable 2**	**Comparable 3**	**Comparable 4**	**Comparable 5**	**Comparable 6**	**Comparable 7**
Address	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	May-04	Jul-04	Jul-04	Sep-04	Sep-04	Sep-04	Sep-04
Unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit
Level	1	1	1	1	1	1	1
Gross Floor Area (sq.m.)	105.2	83.6	65.3	59.7	59.7	343.4	1,147.0
Date of Completion	2003	2003	2003	2003	2003	2003	2004
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Transacted Price on GFA (RMB)	7,150,880	4,920,955	4,041,651	1,374,020	1,374,020	7,897,740	51,608,075
Unit Price on GFA (RMB/sq.m.)	67,974	58,863	61,894	23,015	23,015	22,999	44,994
Adjusted Unit Price on GFA (RMB/sq.m.)	39,984	34,595	36,416	20,286	20,286	20,286	38,272

Adjustments have been made based on our own judgement and knowledge of market. We have had regard to seven comparables in deriving the unit market value of the podium level of the Subject Property. Comparables 1 to 6 are located in one building whereas Comparable 7 is close to the Subject Property. Adjustments have been make for time, location, building quality, size, pedestrian flow and etc. The adjusted unit rates of these comparables range from RMB20,286 to 39,984/sq.m. Taking the average of all the seven comparables will give a unit rate of approximately RMB30,000/sq.m. for Level 1 of the podium of the Subject Property. By allowing 50% discount to reflect the floor level difference for Level 2, the unit market value is RMB15,000 sq.m.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality in 2004 and we consider the comparables are sufficient to derive the market value of the Subject Porperty.

Office Sales Comparables

	Comparable 1	**Comparable 2**	**Comparable 3**	**Comparable 4**	**Comparable 5**	**Comparable 6**
Address	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Dec-04	Dec-04	Dec-04	Nov-04	Nov-04	Nov-04
Unit	An office unit, West Tower	An office unit, West Tower	An office unit, West Tower	An office unit, East Tower	An office unit, East Tower	An office unit, East Tower
Level	14	14	14	11	27	11
Gross Floor Area (sq.m.)	189.5	125.8	189.5	191.7	125.5	188.8
Date of Completion	2003	2003	2003	2003	2003	2003
Efficiency Ratio	71%	71%	71%	71%	71%	71%
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Transacted Price on GFA (RMB)	2,822,805	1,874,569	2,822,805	2,454,272	1,756,720	2,529,920
Transacted Price on GFA (RMB/sq.m.)	14,896	14,901	14,896	12,803	13,998	13,400
Adjusted Unit Price on GFA (RMB/sq.m.)	14,751	14,751	14,751	12,672	13,860	13,266

Adjustments have been made based on our own judgement and knowledge of market. We had regard to six comparables in deriving the unit market value of the office portion of the Subject Property. All comparables are located in the same building where the Subject Property is located. Adjustments have been made for time, location, building quality, size and etc.. The adjusted unit rates of these comparables range from RMB12,672 to 14,751/sq.m. Taking the average of Comparable 1 to 6 will give a unit rate of approximately RMB14,000/sq.m.

Based on the above, we have valued the Subject Property at a value of HK$535,000,000.

The summary is as follows:

Property		Value	Unit Rate on Gross Floor Area
		(HK$)	*(RMB/sq.m.)*
Retail portion		63,000,000	16,350
Office portion		472,000,000	12,930
	Total	535,000,000	13,257

3.4 Valuation Comment

We have noted that for a certain portion of the Subject Property the existing usage is different from the usage as mentioned in Real Estate Title Certificates according to the PRC Legal Opinion. The details and their respective valuation bases are listed in the table below. For the purposes of our valuation, we have valued the Subject Property on this basis.

Unit	Tower	Usage in Real Estate Title Certificate	Existing Usage	Valuation Basis for Existing Tenancy	Valuation Basis After Expiry of Tenancy
Levels 1 to 2	Podium	Commercial	Retail/Office	Retail	Retail
Levels 3 to 5	Podium	Commercial	Office	Office	Office
Level 27	West Tower (114 Ti Yu Dong Road)	Commercial	Office	Office	Office
Level 37	East Tower (116 Ti Yu Dong Road)	Commercial	Office	Office	Office
Other units on or above Level 8	East Tower and West Tower	Office	Office	Office	Office

4. VALUATION SUMMARY

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

Valuation Method	**Value** *(HK$)*
Income Capitalisation	559,000,000
Discounted Cash Flow	531,000,000
Sales Comparison	535,000,000

Based on our primary valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property (the property interest to be disposed by GZI Group) in its existing state as at the date of valuation was **HONG KONG DOLLARS FIVE HUNDRED AND FORTY-FIVE MILLION ONLY (HK$545,000,000)** assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of the values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Valuation of various units of the property (the "Subject Property") located in City Development Plaza, Nos. 185, 187 and 189, Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong, The People's Republic of China (the "PRC") for Guangzhou Investment Company Limited (hereinafter referred to as "GZI") and its subsidiaries hereinafter together referred to as the "GZI Group")

1 SUMMARY OF THE SUBJECT PROPERTY

According to the PRC Legal Opinion, 165 Real Estate Title Certificates have been issued in respect of the Subject Property. The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Full Estates Investment Limited (福達地產投資有限公司)
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	The zoning of the underlying land of City Development Plaza was described as "commercial/residential".
4.	Interest Valued	:	Leasehold interest of the Subject Property
5.	Property Description	:	The Subject Property forms a portion of a 28-storey Grade A commercial building. (See Section 2.5 for details)
6.	Gross Floor Area ("GFA") of the Subject Property	:	Total: 42,397.4 sq.m. Office: 30,639.8 sq.m. Retail: 11,757.6 sq.m.
7.	Lease Term	:	Levels 1-3: 40 years from 27 January 1997 Levels 6-11, 16-28: 50 years from 27 January 1997
8.	Usage	:	Levels 1-3: Commercial Levels 6-11,16-28: Office
9.	Internal Floor Area of the Subject Property	:	32,654.9 sq.m.
10.	Gross Rentable Area of the Subject Property	:	42,397.4 sq.m.
11.	Construction Completion Date of City Development Plaza	:	1997

12.	Valuation Approach	:	Income Capitalisation Approach including Discounted Cash Flow Analysis, cross-checked by the Sales Comparison Approach
13.	Date of Valuation	:	30 September 2005
14.	Market Value in existing state as at the Date of Valuation	:	HK$385,500,000
15.	Unit Value on Gross Floor Area	:	HK$9,093 per sq.m.
16.	Net Passing Income as at the Date of Valuation	:	RMB39,582,540 per annum
17.	Fully Leased Net Income as at the Date of Valuation	:	RMB41,887,560 per annum
18.	Estimated Market Rental Income as at the Date of Valuation	:	RMB45,207,768 per annum
19.	Discount Rate adopted for Discounted Cash Flow Analysis only	:	11%
20.	Exchange Rate as at the Date of Valuation	:	HK$1 = RMB1.043
21.	Term Yield	:	Office: 8.5% Retail: 11.0%
22.	Reversionary Yield	:	Office: 9.5% Retail: 12.0%
23.	Occupancy Rate as at the Date of Valuation	:	Office: 93% Retail: 85.5%
24.	Vacancy Allowance	:	Office: 4% Retail: 2%
25.	Market Comment	:	We consider the marketability of the Subject Property to be reasonable in view of its location and accessibility.

Note: The usage is based on the Real Estate Title Certificates and the PRC Legal Opinion.

2. THE SUBJECT PROPERTY

2.1 Situation and Locality

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

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

2.2 Surrounding Development and Environmental Issues

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

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

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

2.3 Availability of and Access to Public Transport

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

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

2.4 Car Accessibility and Road Frontage

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

Travelling time to major areas of the City through driving:

Baiyun International Airport	45 minutes
Teem Plaza	1 minute
Guangzhou East Train Station	5 minutes

2.5 Description of the Development

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

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

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

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

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

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

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

2.6 Interest to be Disposed by GZI Group

GZI Group is disposing a portion of the development and the details of the interest to be disposed are listed below:

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

Note: The breakdown of the gross floor area and the usage is based on the Real Estate Title Certificates and the PRC Legal Opinion.

2.7 Specification, Services and Finishes of the Development

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

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

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

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

The building is maintained in a reasonable condition commensurate to its age. The building is managed by Guangzhou Yicheng Property Management Ltd. and it is responsible for collection of all management fees from the tenants and dealing with the day to day operations and outgoings relevant to the development.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system and fire extinguishers throughout the building. For further information on building condition, reference should be made to the Building Condition Survey Report.

2.8 Building Condition of the Development

According to the Building Condition Survey report, the building is maintained in a reasonable condition. City Development Plaza and its vehicular access are generally in compliance with the record plans furnished by Guangzhou City Construction & Development Co. Ltd.

For the non-conformity items, some minor deviations such as additional store rooms were found by the building surveyor.

For further information of the building condition, reference should be made to the Building Condition Survey report.

We are of the opinion that the non-conformity items have no material impact on the value of the Subject Property.

2.9 Current Rental Income

As at the date of valuation, 14.5% or 1,711.4 sq.m. of the retail portion and 7.0% or 2,126.5 sq.m. of the office portion of the Subject Property were vacant.

According to the supplied rent roll as at the date of valuation, for which a sample of 20% of leases (which is equivalent to about 30% of the total passing rental income) were checked by us and were found to be in order, the existing net monthly rental income and equivalent annual net rental income was as follows:

Portion	**Gross Floor Area** *(sq.m.)*	**Monthly Net Rental Income** *(RMB)*	**Annual Net Rental Income** *(RMB)*
Retail Portion	10,046.2	623,194	7,478,328
Office Portion	28,513.3	2,675,351	32,104,212

As at the date of valuation, for the retail portion, the retail units were leased to 5 tenants. For office portion, the office units were leased to over 50 tenants.

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

As at the date of valuation, the top 10 major tenancy agreements by rental income within the Subject Property occupied 54.0% of the total gross floor area and were responsible for 57.7% of the net rental income received. Details of the tenancy agreements are as follows:

Unit	Gross Floor Area *(sq.m.)*	Net Monthly Rental Income *(RMB)*	Net Monthly Rent Passing *(RMB/ sq.m.)*	Estimated Net Monthly Market Rental Income *(RMB/ sq.m.)*	% of Current Monthly Net Rental Income	Lease Term From	To
Units 22A-J, 23A-J	3,688.7	405,755	110	87	12.3%	5/1/2005	4/30/2008
Unit 202, Level 3	7,907.2	313,203	40	84	9.5%	7/1/2001	6/30/2010
Unit 28A-J	1,844.3	193,656	105	87	5.9%	9/1/2003	8/31/2006
Unit 27A-J	1,844.3	189,509	103	87	5.7%	10/17/2001	10/16/2006
Unit 26A-J	1,844.3	169,929	92	87	5.2%	9/1/2001	8/31/2006
Unit 18A-J	1,844.3	153,080	83	87	4.6%	1/1/2005	12/31/2007
Unit 11A-J	1,844.3	153,080	83	87	4.7%	11/20/2003	11/19/2006
Portion of 103	234.4	117,850	503	200	3.6%	11/1/2002	10/31/2007
Unit 101	881.2	110,144	125	200	3.3%	9/15/2002	12/31/2005
Portion of Level 16	1,060.5	95,444	90	90	2.9%	1/1/2005	12/31/2007

The total current net passing rental income received and the total estimated market rental income as at the date of valuation were RMB3,298,545 and RMB3,767,314 respectively. The total current net passing rental income is 12% lower than the total estimated market rental income. The estimated net monthly market rental income is based on the unit market rental income of different levels of the retail and office portions of the Subject Property in Section 3.1.

For the top 10 major tenancy agreements by rental income, the current net passing rental income is generally slightly higher than the estimated market rental income.

As advised by GZI, the followings are details of tenancy agreements in the Subject Property of parties who will be regarded as related parties of GZI Real Estate Investment Trust upon its inception:

Unit	Gross Floor Area	Net Monthly Rental Income	Unit Net Monthly Rental Income	Market Rental Income as at the date of valuation	Lease Term	
					From	To
	(sq.m.)	*(RMB)*	*(RMB/ sq.m.)*	*(RMB)*		
Unit 101	881.3	110,144	125	200	9/15/2002	12/31/2005
Unit 201	562.8	42,095	75	140	11/1/2003	12/31/2005
Portion of Unit 103	97.0	485	5	200	5/1/2004	4/30/2006
Portion of Level 16	922.2	82,995	90	90	1/1/2005	12/31/2007
Portion of Level 16	46.1	4,153	90	90	1/1/2005	12/31/2007
Portion of Level 16	138.3	12,449	90	90	1/1/2005	12/31/2007

As advised by GZI, we understand that the tenancy of Portion of Unit 103 for the related party will continue to be renewed at the same rental income level as the existing tenancy and the tenancies of Units 101 and 201 for the related party will be renewed at the then market rental income and we have considered this in our valuation.

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

2.10 Occupancy Rate

According to the PRC Legal Opinion, the majority of the Subject Property with a total floor area of approximately 38,559.4 sq.m. was leased to various tenants as at the date of valuation. This equates to an occupancy rate of about 91% of the Subject Property to be disposed by GZI Group.

2.11 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies vary between 1 and 6 years and are on normal local commercial terms with agreed net monthly rentals generally ranging between RMB40 per sq.m. and RMB503 per sq.m. with an average unit monthly net rental income of RMB62 per sq.m. and RMB94 per sq.m. for the retail and office portions respectively.

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

Lease term greater than	**Lease term less than or equal to**	**By Number**	**By Gross Floor Area**
(year)	*(year)*	*(%)*	*(%)*
0	1	24.7	18.9
1	2	26.0	11.0
2	3	36.3	31.9
3	4	6.5	9.6
4	5	5.2	1.8
5	6	1.3	17.6
vacant area		n.a.	9.0
		100	100

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

% of tenancies due to expire in each year	**By Number**	**By Gross Floor Area**
	(%)	*(%)*
2005	16.2	8.6
2006	52.9	32.1
2007	25.0	19.9
2008	4.4	11.9
2009	0.0	0.0
2010 and beyond	1.5	18.5
Vacant	n.a.	9.0
Total	100.0	100.0

For Level 1 of retail portion, save for the tenancies entered into with related parties, the typical lease terms of the tenancies varied between 2 and 5 years and were on normal local commercial terms with agreed net monthly rentals as at the date of valuation generally ranging between RMB107 per sq.m. and RMB503 per sq.m.

For Levels 2 and 3 of retail portion, save for the tenancy entered into with a related party on Level 2, the lease terms of the tenancies were 2 and 6 years and were on normal local commercial terms with agreed net monthly rentals as at the date of valuation at RMB75 per sq.m. and RMB40 per sq.m. respectively.

For office portion, the typical lease terms of the tenancies varied between 1 and 3 years and were on normal local commercial terms with agreed net monthly rentals as at the date of valuation generally ranging between RMB80 per sq.m. and RMB115 per sq.m.

2.12 Summary of Material Rent Review Provisions

The Subject Property has the following material rent review provisions:

Level	Gross Floor Area	Net Monthly Rental Income	Lease Term	
			From	To
	(sq.m.)	*(RMB)*		
Unit on Level 1	234.4	117,850	1 November 2002	31 October 2005
		123,743	1 November 2005	31 October 2007
Unit on Level 3	7,907.2	313,203	1 January 2003	30 June 2006
		344,523	1 July 2006	30 June 2007
		396,201	1 July 2007	30 June 2010
Unit on Level 26	1,844.3	Rent Free	1 September 2001	30 November 2001
		151,236	1 December 2001	31 August 2003
		160,310	September 2003	31 August 2004
		169,929	1 September 2004	31 August 2005
		180,125	1 September 2005	31 August 2006
Unit on Level 27	1,844.3	Rent Free	17 October 2001	31 December 2001
		175,212	1 January 2002	16 October 2003
		182,220	17 October 2003	16 October 2004
		189,509	17 October 2004	16 October 2005
		197,089	17 October 2005	16 October 2006

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

2.13 Historic Outgoings

As advised by GZI, the current monthly property management fees paid by the tenants for the retail and office portions are RMB33 per sq.m. and RMB25 per sq.m. respectively and the total property management income covers the total property management expenses.

We are of the opinion that the current property management fee is in line with the office market level of similar developments in the locality. (See Section 2.14.3)

2.14 Property Management

2.14.1 *Tenancy Services Agreement*

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

2.14.2 *Deed of Mutual Covenant (業主公約)*

The Deed of Mutual Covenant was passed in a resolution of the Owners' Meeting of City Development Plaza dated 27 June 2005. It comprises provisions relating to definitions of common areas, common facilities and other terms, the beneficial interest and obligations of the individual owners, rights of the property developer, general, financial and other issues of management, management fees and other charges, rights and duties of property manager, owners' meeting and owners' committee and other related issues.

2.14.3 *Property Management Fee*

As advised by GZI, the monthly management fees paid by the tenants for the retail and office portions are RMB33 per sq.m. and RMB25 per sq.m. respectively which is at the market level of similar developments in the locality.

Name of Building	**Management fee for Retail Portion** *(RMB/sq.m.)*	**Management fee for Office Portion** *(RMB/sq.m.)*
Gao Sheng Building (高盛大廈)	Not Applicable	27
Times Square (時代廣場)	36	26
Goldlion Building (金利來大廈)	33	29
Pingan Insurance Building (平安保險大廈)	36	27

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

In this valuation approach, the total rental income is divided into the term income and 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 brought back to the date of valuation.

We have applied individual yields to the retail and office components of the Subject Property, with a higher yield for the retail component to reflect the perceived higher levels of risk associated with the retail property market which is less mature and more volatile compared to the office market in Guangzhou (i.e. the retail yield is higher than office yield).

To bring the reversionary value back to the current date, we have used a present value rate which is the same as the reversionary yield for the particular component of the Subject Property. The present value is the current monetary value of future cash flows and reflects the opportunity cost of an investment in a similar asset which would be expected to return a similar remunerative return as the Subject Property.

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

For Level 1 of retail portion, the typical net monthly passing rentals as at the date of valuation generally range between RMB107 per sq.m. and RMB503 per sq.m. and the average was RMB170 per sq.m. For Levels 2 and 3 of retail portion, the net monthly passing rental income is RMB75 per sq.m. and RMB40 per sq.m. respectively. We are of the opinion that the current passing rentals were generally below the market level of RMB200 per sq.m., RMB140 per sq.m. and RMB100 per sq.m. for Levels 1, 2 and 3 respectively as at the date of valuation.

For office portion, the typical net monthly passing rentals generally ranging between RMB80 per sq.m. and RMB115 per sq.m. and the average is RMB94 per sq.m. We are of the opinion that the current passing rentals were slightly higher than the average market level of RMB90 per sq.m. as at the date of valuation.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality in 2004 and we consider the comparables are sufficient to derive the market rental of the Subject Property.

The details of the rentals comparables are as follows:

Retail Rental Income Comparables:

	Comparable1	**Comparable 2**	**Comparable 3**	**Comparable 4**	**Comparable 5**
Address	Lin He Xi Road	Lin He Xi Road	Ti Yu Dong Road	Tian He Road	Tian He Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Dec-04	Dec-04	Nov-04	May-04	Apr-04
Unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit
Level	1	1	Podium	1	1
Gross Floor Area (sq.m.)	505	223.8	Around 1,000	30	45.5
Date of Completion	2004	2004	2003	1995	1995
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted
Lease Term (year)	5.00	6.00	6.00	6.00	6.00
Lease Commencement Date	1-Nov-04	16-Oct-04	15-Nov-04	26-May-04	Jun-04
Lease Expiry Date	31-Oct-09	15-Oct-10	14-Oct-10	25-May-10	Jun-10
Net Monthly Rental Income on GFA (RMB)	75,750	31,329	282,080	37,800	45,500
Net Monthly Rental Income on GFA (RMB/sq.m.)	150	140	282	1,260	1,000
Adjusted Net Monthly Rental Income on GFA (RMB/sq.m.)	121	101	277	278	221

We have had regard to five comparables in deriving the rental income of the podium level of the Subject Property. Adjustments have been made for time, location, building quality, size, pedestrian flow and etc. The adjusted unit rentals of these comparables range from RMB101/sq.m. to RMB278/sq.m. Taking the average of all the five comparables will give a monthly unit rental income of approximately RMB200/sq.m. for Level 1 of the podium of the Subject Property. By allowing 30% and 50% discount to reflect the floor level difference for Levels 2 and 3, the monthly unit rental income is RMB140/sq.m. and RMB100/sq.m. respectively.

Office Rental Income Comparables:

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable 6	Comparable 7	Comparable 8
Address	Ti Yu Xi Road	Ti Yu Xi Road	Ti Yu Xi Road	Ti Yu Xi Road	Ti Yu Xi Road	Ti Yu Xi Road	Ti Yu Xi Road	Ti Yu Xi Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Sept-05	Sep-05	Sep-05	Sep-05	Sept-05	Aug-05	Aug-05	Aug-05
Unit	An office unit	An office unit	An office unit	An office unit	An office unit	An office unit	10C	An office unit
Level	19	10	19	24	19	9	10	17
Gross Floor Area (sq.m.)	208.2	230.5	126.5	818.1	126.5	104.1	126.5	208.2
Date of Completion	1997	1997	1997	1997	1997	1997	1997	1997
Efficiency Ratio	72%	72%	72%	72%	72%	72%	72%	72%
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Lease Term (year)	2.00	2.00	0.99	2.06	1.00	0.58	2.00	0.42
Lease Commencement Date	01-Sep-05	01-Sep-05	01-Sep-05	09-Sep-05	01-Sep-05	01-Aug-05	01-Aug-05	01-Aug-05
Lease Expiry Date	31-Aug-07	31-Aug-07	30-Aug-06	30-Sep-07	31-Aug-06	28-Feb-06	31-Jul-07	31-Dec-05
Net Monthly Rental Income on GFA (RMB)	18,737	20,749	11,760	73,626	11,381	9,161	11,381	19,571
Net Monthly Rental Income on GFA (RMB/sq.m.)	90	90	93	90	90	88	90	94
Adjusted Net Monthly Rental Income on GFA (RMB/sq.m.)	90	90	93	90	90	88	90	94

Based on the analysis of Comparables 1 to 8 which are situated within City Development Plaza and were transacted recently, the average of the adjusted unit rate is approximately RMB90/sq.m. We have cross checked with comparables of other buildings which are listed in the table below and we are of the opinion that RMB90/sq.m. is reasonable.

Office Rental Income Comparables:

	Comparable 9	Comparable 10	Comparable 11	Comparable 12	Comparable 13	Comparable 14
Address	Huang Pu Xi Avenue	Ti Yu Xi Road	Tian He Bei Road	Tian He Bei Road	Lin He Xi Road	Lin He Xi Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Mar-05	Nov-04	Apr-05	Mar-05	Aug-05	Jul-05
Unit	whole	whole	5201, 5204-06	5301, 5308	1405	3401, 3402, 3408, 3409
Level	24	23	52	53	14	34
Gross Floor Area (sq.m.)	1345.8	1,222.6	1108.5	648.6	161.5	1,623.3
Date of Completion	2000	2003	1997	1997	2004	2004
Efficiency Ratio	70%	70%	65%	65%	70%	70%
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Lease Term (year)	2.92	3.00	1.69	1.92	2.00	5.00
Lease Commencement Date	11-Apr-05	01-Nov-04	24-Apr-05	21-May-05	10-Aug-05	01-Aug-05
Lease Expiry Date	10-Mar-08	31-Oct-07	31-Dec-06	20-Apr-07	09-Aug-07	31-Jul-10
Net Monthly Rental Income on GFA (RMB)	100,935	110,036	146,428	97,286	21,485	202,909
Net Monthly Rental Income on GFA (RMB/sq.m.)	75	90	132	150	133	125
Ajusted Net Monthly Rental Income on GFA (RMB/sq.m.)	85	94	113	125	116	112

The existing monthly net rental income as at the date of valuation was RMB3,298,545 and it is anticipated that the development will maintain the current occupancy level of around 91% which is in line with the occupancy rate of similar type of buildings in the market.

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

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

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property. From the previous analysis, the unit market rental income for Level 1 of the retail podium is RMB200/sq.m. In Section 3.3, the unit market value for Level 1 is RMB20,500/sq.m. The market yield is 11.7%. We have adopted 12% as the reversionary yield for the retail component of the Subject Property which is within the range of the market comparable transactions as follows:

Retail market:

Unit	**Building**	**Address**	**Gross Floor Area** *(sq.m.)*	**Date of Transaction**	**Actual Transaction Price** *(RMB)*	**Sale Price per sq.m.** *(RMB/sq.m.)*	**Estimated Unit Annual Market Net Rental Income as at the Date of Transaction** *(RMB/sq.m.)* *(Note 1)*	**Occupancy Status as at the date of Transaction**	**Market Yield** *(Note 2)*
Whole	Confidential	Confidential	35,000	End of 2004	265,000,000	7,571	796	20 years Sale and Leaseback	10.5%
Whole	Confidential	Ti Yu Xi Road	1,147	Sept-04	51,608,075	44,994	4,752	Vacant	10.6%
B205	Confidential	Confidential	15.6	Sept-05	1,244,800	79,795	9,600	Vacant	12.0%
B107	Confidential	Confidential	16.5	Sept-05	1,405,050	85,155	10,260	Vacant	12.0%
Three shop units		Ti Yu Dong Road	463	Sept-04	10,645,780	22,993	2,688	Vacant	11.7%

Notes:

1) The estimated market net rental income is based on our analysis of recent lettings of comparable properties.

2) The market yield is the estimated market net rental income per annum divided by the actual transaction price.

From the previous analysis, the unit market rental income for office portion is RMB90/sq.m. In Section 3.3, the unit market value for office portion is RMB10,800/sq.m. The market yield is 10%. We have adopted 9.5% as the reversionary yield for the office component based on the average of the market yield of comparable transactions as follows:

Office market:

Unit	Address	Gross Floor Area *(sq.m.)*	Date of Transaction	Actual Transaction Price *(RMB)*	Sale Price per sq.m. *(RMB/sq.m.)*	Estimated Unit Annual Market Net Rental Income as at the Date of Transaction *(RMB/sq.m.)* *(Note 1)*	Occupancy Status as at the date of Transaction	Market Yield *(Note 2)*
An office unit	Ti Yu Xi Road	1,450.8	Sept-04	14,508,043	10,000	1,080	Vacant	10.8%
An office unit	Ti Yu Dong Road	188.8	Nov-04	2,529,920	13,400	1,128	Vacant	8.4%
An office unit	Ti Yu Dong Road	191.7	Nov-04	2,454,272	12,796	1,128	Vacant	8.8%
An office unit	Ti Yu Dong Road	189.5	Dec-04	2,822,805	14,896	1,260	Vacant	8.5%
An office unit	Lin He Xi Road	229.3	Aug-05	2,866,125	12,449	1,512	Vacant	12.1%

Notes:

1) The estimated market net rental income is based on our analysis of recent lettings of comparable properties.

2) The market yield is the estimated market net rental income per annum divided by the actual transaction price.

For retail and office markets, the comparables were sourced from the Colliers International database and were calculated based on the comparable general location. Due to the limited number of whole building sales, sales of smaller units in the locality were also used.

We have valued the Subject Property at a value of HK$411,000,000.

The summary is as follows:

Property	Term Yield	Reversionary Yield	Value *(HK$)*	Unit Rate on Gross Floor Area *(HK$/sq.m.)*
Retail portion	11%	12%	86,000,000	7,314
Office portion	8.5%	9.5%	325,000,000	10,607
		Total:	411,000,000	9,694

3.2 Discounted Cash Flow Analysis

This is defined in the International Valuation Standards Committee (7th Edition), as a financial modeling technique based on explicit assumptions regarding the prospective cash flow to operating real 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 rental income stream associated with the properties. In the case of operating real properties, periodic cash flow is typically estimated as gross rental income less vacancy, bad debts, impact of taxes (stamp duty, urban real estate tax, flood prevention works maintenance fee and business tax), service fees and other operating expenses. 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 investment income producing properties.

For the Subject Property, the terminal capitalisation rate for office portion within our calculation is 8% and the terminal capitalisation rate for retail portion is 10%. This is based on our analysis of the term yields applicable in the marketplace as set out in Section 3.1 with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings. Based on the above, we consider that the market expectations are around 10% to 12% for both office and retail properties. We note that the yield of 10-year Exchange Fund Notes issued by the Hong Kong Monetary Authority as at 30 September 2005 is in the order of 4.17%, indicating a risk premium of between 5.83% and 7.83%. Based on our analysis of comparable sales in the international market, the higher premium reflects the inherent investment risks associated with the PRC and the property risk. We consider that Hong Kong is the closest mature market to the PRC and it is more appropriate to adopt the Hong Kong risk free rate for the PRC property investment.

In arriving at the periodic cash flow prepared by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases. The adopted rental income growth rates are in line with the forecasts as detailed in the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

An annual vacancy allowance and allowance for bad debts have been considered within the portfolio. An annual vacancy allowance is about 2% and 4% for retail and office components respectively, which is made reference to the current vacancy. With reference to the historical bad debts ratios, we consider that the bad debts allowance should be 1% of the net rent received. In case of the City Development Plaza units, the bad debt ratio was 1.3% for 2003, 1.8% for 2004 and 0.5% for the six months ended 30 June 2005.

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

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

In our calculation, we have not deducted any acquisition costs and disposal costs. We are of the opinion that these issues would be taken into account by a prospective purchaser.

In preparing our valuations for the Subject Property, we have had regard to asking or transacted rental income comparables within similar prime office and retail developments in the locality. For details, reference should be made to Section 3.1 of this report.

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

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

According to our local market research, a substantial new office supply will come onto the market in the next few years. We believe that this will have an adverse impact on the office market rental income growth rate and we expect negative growth rate for the short to medium term for City Development Plaza. This is expected to be temporary and the office market rental income rate is expected to revert to positive growth thereafter. We have made reference to the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

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

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

No immediate capital expenditure is included as a projected outgoings item with reference to the Building Condition Survey Report.

Based on the above, we have valued the Subject Property at a value of HK$360,000,000 taking account of outgoings on the taxes and cost items.

The summary is as follows:

Property	**Capitalisation Rate**	**Discount Rate**	**Value** *(HK$)*	**Unit Rate on Gross Floor Area** *(HK$/sq.m.)*
Retail portion	10%	11%	105,000,000	8,930
Office portion	8%	11%	255,000,000	8,323
	Total:		360,000,000	8,491

3.3 Sales Comparison Approach

In the Sales Comparison Approach, we have considered the sales of similar properties and related market data and established a value by adjustment of the comparables. In general, the Subject Property is compared with sales of similar properties that have been transacted in the open market.

In preparing our valuations of the Subject Property, we have had regard to asking or transacted comparables within similar prime office and 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 2004 and we consider the comparables are sufficient to derive the market value of the Subject Property.

Adjustments have been made for various factors such as location, building age, efficiency and time. The details are as follows.

Retail Sales Comparables:

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable 6	Comparable 7
Address	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Xi Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	May-04	Jul-04	Jul-04	Sep-04	Sep-04	Sep-04	Sep-04
Unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit	A shop unit
Level	1	1	1	1	1	1	1
Gross Floor Area (sq.m.)	105.2	83.6	65.3	59.3	59.7	343.4	1,147.0
Date of Completion	2003	2003	2003	2003	2003	2003	2004
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Transacted Price on GFA (RMB)	7,150,880	4,920,955	4,041,651	1,374,020	1,374,020	7,897,740	51,608,075
Transacted Price on GFA (RMB/sq.m.)	67,974	58,863	61,894	23,015	23,015	22,999	44,994
Adjusted Unit Price on GFA (RMB/sq.m.)	24,419	21,128	22,240	13,421	13,421	13,421	35,343

Adjustments have been made based on our own judgement and knowledge of market. We have had regard to seven comparables in deriving the unit market value of the podium level of the Subject Property. Comparable 1 to 6 are located in one building whereas Comparable 7 is close to the Subject Property. Adjustments have been made time, location, building quality, size, and pedestrian flow. The adjusted unit rates of these comparables range from RMB13,421 to 35,343/sq.m. Taking the average of all the seven comparables will give a unit rate of approximately RMB20,500/sq.m. for Level 1 of the podium of the Subject Property. By allowing 30% and 50% discounts to reflect the floor level difference for Levels 2 and 3, the unit rate is RMB14,350/sq.m. and RMB10,250/sq.m. respectively.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality in 2004 and we consider the comparables are sufficient to derive the market value of the Subject Property.

Office Sales Comparables:

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5	Comparable 6	Comparable 7
Address	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Dong Road	Ti Yu Xi Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Dec-04	Dec-04	Dec-04	Nov-04	Nov-04	Nov-04	Sep-04
Unit	An office Unit	An office Unit	An office Unit	An office Unit	An office Unit	An office Unit	An office unit
Level	14	14	14	11	27	11	5
Gross Floor Area (sq.m.)	189.5	125.8	189.5	191.7	125.5	188.8	1,450.8
Date of Completion	2003	2003	2003	2003	2003	2003	2004
Efficiency Ratio	77%	77%	77%	77%	77%	77%	75%
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Transacted Price on GFA (RMB)	2,822,805	1,874,569	2,822,805	2,454,272	1,756,720	2,529,920	14,508,043
Transacted Price on GFA (RMB/sq.m.)	14,896	14,901	14,896	12,803	13,998	13,400	10,000
Adjusted Unit Price on GFA (RMB/sq.m.)	11,590	11,590	11,590	9,956	10,890	10,423	9,840

Adjustments have been made based on our own judgement and knowledge of market. We have had regard to eleven comparables in deriving the unit market value of the office portion of the Subject Property. Comparable 1 to 6 are located in one building whereas Comparable 7 is close to the Subject Property. Adjustments have been made for time, location, building quality, and size. The adjusted unit rate of these comparables range from RMB9,840 to 11,590/sq.m. Taking the average of Comparables 1 to 7 will give a unit rate of approximately RMB10,800/sq.m. We have cross checked with comparables of other buildings which are listed in the table below and we are of the opinion that RMB10,800/sq.m. is reasonable.

Office Sales Comparables:

	Comparable 8	Comparable 9	Comparable 10	Comparable 11
Address	Lin He Xi Road	Lin He Xi Road	Lin He Xi Road	Lin He Xi Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Aug-05	Jul-05	Jul-05	May-05
Unit	1806	1808, 1809	1807	2007
Level	18	18	18	20
Gross Floor Area (sq.m.)	229.3	295.2	96.2	96.2
Date of Completion	2004	2004	2004	2004
Efficiency Ratio	70%	70%	70%	70%
Nature of Transaction	Transacted	Transacted	Transacted	Transacted
Asking/Transacted Price on GFA (RMB)	2,866,125	3,654,081	1,201,875	1,153,800
Asking/Transacted Price on GFA (RMB/sq.m.)	12,499	12,378	12,494	11,994
Adjusted/Transacted Price on GFA (RMB/sq.m.)	9,771	9,677	9,771	9,380

Based on the above, we have valued the Subject Property at a value of HK$418,000,000.

The summary is as follows:

Property		Value	Unit Rate on Gross Floor Area
		(HK$)	*(HK$/sq.m.)*
Retail portion		105,000,000	8,930
Office portion		313,000,000	10,215
	Total	418,000,000	9,859

4. VALUATION SUMMARY

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

Valuation Approach/Analysis	Value
	(HK$)
Income Capitalisation	411,000,000
Discounted Cash Flow	360,000,000
Sales Comparison	418,000,000

Based on our primary valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Subject Property (the property interest to be disposed by GZI Group) in its existing state as at the date of valuation was **HONG KONG DOLLARS THREE HUNDRED EIGHTY-FIVE MILLION AND FIVE HUNDRED THOUSAND ONLY (HK$385,500,000)** assuming it is available for sale in the market with the benefit of existing tenants and the property title are free from all material encumbrances or defects. The Market Value of the Subject Property is an average of values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Valuation of various units of the property (the "Subject Property") located in Victory Plaza, Nos. 101 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong, The People's Republic of China (the "PRC") for Guangzhou Investment Company Limited (hereinafter referred to as "GZI") and its subsidiaries (hereinafter together referred to as the "GZI Group").

1. SUMMARY OF THE SUBJECT PROPERTY

According to the PRC Legal Opinion, 9 Real Estate Title Certificates have been issued in respect of the Subject Property.

The details of the Subject Property are summarised as follows:

1.	Current Registered Owner	:	Keen Ocean Limited (京澳有限公司)
2.	Type of Land Use Right	:	Granted
3.	Town Plan Zoning	:	According to the State-owned Land Use Rights Grant Contract dated 27th January, 1997, the zoning of the underlying land of Victory Plaza was described as "commercial/tourism".
4.	Interest Valued	:	Leasehold interest of the Subject Property.
5.	Property Description	:	The Subject Property comprises a portion of a 6-storey retail shopping centre with 1 basement level. (See Section 2.5 for details)
6.	Gross Floor Area ("GFA") of the Subject Property	:	27,698.1 sq.m.
7.	Lease Term	:	
	Basement Level 1		40 years from 8 March 2004
	Unit 101		40 years from 8 March 2004
	Unit 102		40 years from 8 March 2004
	Level 1 (架空層)		40 years from 8 March 2004
	Level 2		40 years from 8 March 2004
	Level 3		40 years from 8 March 2004
	Level 4		40 years from 8 March 2004
	Level 5		40 years from 8 March 2004
	Level 6		40 years from 8 March 2004

8.	Usage	:	
	Basement Level 1		— Non-residential/Commercial
	Unit 101		— Non-residential
	Unit 102		— Non-residential
	Level 1 (架空層)		— Non-residential
	Level 2		— Non-residential
	Level 3		— Non-residential
	Level 4		— Non-residential
	Level 5		— Non-residential
	Level 6		— Non-residential
9.	Internal Floor Area of the Subject Property	:	22,847.9 sq.m.
10.	Gross Rentable Area of the Subject Property	:	27,262.3 sq.m.
11.	Construction Completion Date of Victory Plaza	:	2003
12.	Valuation Approach	:	Income Capitalisation Approach including Discounted Cash Flow Analysis, cross-checked by the Sales Comparison Approach
13.	Date of Valuation	:	30 September 2005
14.	Market Value in existing state as at the Date of Valuation	:	HK$533,000,000
15.	Unit Value on Gross Floor Area	:	HK$19,243 per sq.m.
16.	Net Passing Income as at the Date of Valuation	:	RMB30,902,628 per annum
17.	Fully Leased Net Income as at the Date of Valuation	:	RMB30,902,628 per annum
18.	Estimated Market Rental Income as at the Date of Valuation	:	RMB61,529,964 per annum
19.	Discount Rate adopted for Discounted Cash Flow Analysis Only	:	11%

20.	Exchange Rate as at the Date of Valuation	:	HK$1 = RMB1.043
21.	Term Yield	:	8.5%
22.	Reversionary Yield	:	10.5%
23.	Occupancy Rate as at the Date of Valuation	:	100%
24.	Vacancy Allowance	:	1%
25.	Market Comment	:	We consider the marketability of the Subject Property to be reasonable in view of its location and accessibility.

Note: The usage is based on the Real Estate Title Certificates and the PRC Legal Opinion.

2. THE SUBJECT PROPERTY

2.1 Situation and Locality

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

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

2.2 Surrounding Development and Environmental Issues

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

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

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

2.3 Availability of and Access to Public Transport

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

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

2.4 Car Accessibility and Road Frontage

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

Travelling time to major areas of the City through driving:

Baiyun International Airport	45 minutes
Teem Plaza	1 minute
Guangzhou East Train Station	5 minutes

2.5 Description of the Development

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

The area breakdown of Victory Plaza is summarised as below:

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

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

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

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

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

2.6 Interest to be Disposed by GZI Group

GZI Group is disposing a portion of the development and the details of the interest to be disposed are listed below:

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

Note: The breakdown of the gross floor area is based on the Real Estate Title Certificates and the PRC Legal Opinion.

2.7 Specification, Services and Finishes of the Development

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

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

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

The building is maintained in a reasonable condition commensurate to its age. The building is managed by Guangzhou Yicheng Property Management Ltd. and it is responsible for collection of all management fees from the tenants and dealing with the day to day operations and outgoings relevant to the development.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, fire alarm system and fire extinguishers throughout the building. For further information on building condition, reference should be made to the Building Condition Survey Report.

2.8 Building Condition of the Development

According to the Building Condition Survey Report, the building is maintained in a reasonable condition. There are minor defects noted and the condition is generally in line with the building age and no structural defects have been observed at the time of inspection in September 2005.

For the non-conformity items, some minor deviations such as addition of spiral stair and ceiling staircase opening not being consistent with record drawings, were found by the building surveyor.

For further information of the building condition, reference should be made to the Building Condition Survey Report.

We are of the opinion that the non-conformity items have no material impact on the value of the Subject Property.

2.9 Current Rental Income

As at the date of valuation, the Subject Property was fully leased. According to the supplied rent roll as at the date of valuation, for which a sample of 50% of leases (which is equivalent to about 60% of the total passing rental income) were checked by us and were found to be in order, the existing net monthly rental income and equivalent annual net rental income was as follows:

Gross Floor Area *(sq.m.)*	**Monthly Net Rental Income** *(RMB)*	**Annual Net Rental Income** *(RMB)*
27,698.1	2,575,219	30,902,628

As at the date of valuation, the Subject Property was leased to 22 tenants.

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

As at the date of valuation, the top 10 major tenancy agreements by rental income within the Subject Property occupied 52.2% of the total gross floor area and were responsible for 53.0% of the net rental income received. Details of the tenancy agreements are as follows:

Unit	Gross Floor Area *(sq.m.)*	Net Monthly Rental Income *(RMB)*	Unit Net Monthly Rental Income *(RMB/ sq.m.)*	Estimated Unit Net Monthly Rental Income *(RMB/ sq.m.)*	% of Current Monthly Net Rental Income	Lease Term From	To
001	1,918.0	306,877	160	162	11.9%	01/03/2005	31/05/2011
107, 108, 210Q	775.6	156,669	202	306	6.3%	01/10/2003	17/10/2008
309-313, 315-323, 325, 326, 358L-363L, 365L-368L, 371-373, 375-382, 388K, 393K, 396K	1,643.2	147,888	90	216	5.7%	24/08/2005	31/03/2010
102, 103, 119	840.0	145,000	173	342	5.6%	10/10/2003	09/12/2013
603	2,817.1	135,222	48	126	5.3%	01/10/2003	09/12/2013
501A	2,500.0	130,000	52	144	5.0%	01/02/2004	30/04/2014
111, 112	378.2	121,024	320	360	4.7%	12/09/2003	17/10/2006
502	1,800.0	93,600	52	162	3.6%	01/02/2004	30/04/2014
113, 115A, 215Q, 216Q, 270K	318.2	79,680	250	324	3.1%	16/07/2004	31/08/2009
601, 602	1,480.0	71,040	48	144	2.8%	18/02/2004	17/05/2012

The total current net passing rental income received and the total estimated market rental income as at the date of valuation was RMB2,575,219 and RMB5,127,497 respectively. The total current net passing income was 50% lower than the total estimated market rental income. The estimated unit net monthly rental income is based on the unit market rental income of different levels of the Subject Property in Section 3.1.

For the top 10 major tenancy agreements by rental income, the current unit net passing rental income is generally lower than the estimated unit market rental income.

As advised by GZI, there were no related parties lettings in the Subject Property as at the date of valuation.

The details of the tenant mix are as follows:

Industry	**Gross Floor Area** *(sq.m.)*	**Percentage**
Food & Beverages	10,757.4	38.8%
Department Store	11,109.9	40.1%
Electricity	1,809.2	6.5%
Bank	872.1	3.2%
Retail Shops	3,149.5	11.4%
Total area to be disposed	27,698.1	100.0%

2.10 Occupancy Rate

According to the PRC Legal Opinion, the majority of the Subject Property with a total floor area of approximately 27,262.3 sq.m. was leased to various tenants as at the date of valuation. This equates to an occupancy rate of 100% of the Subject Property to be disposed by GZI Group.

2.11 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 RMB45 per sq.m. and RMB414 per sq.m. with an average unit monthly net rental income of RMB93 per sq.m. The latest expiry date of the leases is April 2014.

Most tenants enjoyed a rental discount for the first two years of their leases. Initial discounts of 30.0% were granted when the Subject Property commenced operations in the second half of 2003 to induce potential tenants to take up space in Victory Plaza. In the second half of 2004, due to commencement of the construction of the two office towers above the Victory Plaza podium, most of the tenants were offered a further discount of 20.0% for the period up to the completion of the construction. As they were long term tenants in the Subject Property, three of the tenants were granted this 20.0% discount for an additional three or four-month period following the completion of such works.

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

Lease Term Greater than	Lease Term less than or equal to	By Number	By Gross Floor Area
(year)	*(year)*	*(%)*	*(%)*
1	2	7.4	27.7
2	3	26.0	1.5
3	4	18.5	3.0
4	5	11.1	18.3
5	6	14.8	5.8
6	7	3.7	6.5
7	8	0.0	0.0
8	9	3.7	5.7
9	10	0.0	0.0
10	11	14.8	31.5
		100.0	100.0

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

% of tenancies due to expire in each year	By Number	By Gross Floor Area
	(%)	*(%)*
2005	0.0	0.0
2006	33.3	2.9
2007	8.3	0.7
2008	20.9	4.2
2009	8.3	1.9
2010 and beyond	29.2	90.3
Vacant	n.a.	0.0
Total	100.0	100.0

For the basement and Levels 1 to 6 of the Subject Property, the typical lease terms of the tenancies varies on each level and were on normal local commercial terms with agreed net monthly rentals as at the date of valuation shown as follows:

Level	Lease Term of Tenancies	Range of the Agreed Net Monthly Rentals From	To	Average
	(year)	*(RMB/sq.m.)*		
Basement	6	170	170	170
Level 1	from 3 to 10	84	414	180
Level 2	5	90	90	90
Level 3	from 2 to 5	78	172	94
Level 4	5	80	128	81
Level 5	10	47	47	47
Level 6	from 8 to 10	45	56	52

2.12 Summary of Material Rent Review Provisions

The Subject Property has the following material rent review provisions:

Level	Gross Floor Area	Net Monthly Rental Income	Lease Term From	To
	(sq.m.)	*(RMB)*		
Unit on Basement	1,918.0	306,877	1/4/2005	30/4/2007
		Rent Free	1/5/2007	31/5/2007
		331,427	1/6/2007	31/5/2009
		357,941	1/6/2009	31/5/2011
Unit on Level 1	840.0	145,000	10/12/2003	9/12/2005
		153,700	10/12/2005	9/12/2007
		162,922	10/12/2007	9/12/2009
		172,697	10/12/2009	9/12/2011
		183,059	10/12/2011	9/12/2013
Unit on Level 1	775.6	156,669	10/12/2003	31/3/2005
		152,121	1/4/2005	30/4/2005
		156,669	1/5/2005	9/12/2005
		162,874	10/12/2005	9/12/2006
		169,079	10/12/2006	9/12/2007
		176,059	10/12/2007	17/10/2008
Unit on Level 1	3,373.4	953,620	1/7/2005	31/3/2006
		1,001,301	1/4/2006	31/3/2007
		1,051,399	1/4/2007	31/3/2008
		1,777,503	1/4/2008	31/3/2009
		1,777,503	1/4/2009	31/3/2010

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

2.13 Historic Outgoings

As advised by GZI, the current monthly property management fee paid by the tenants for the Subject Property is RMB48 per sq.m. and the total property management income covers the total property management expenses.

We are of the opinion that the current property management fee is in line with the market level of similar developments in the locality. (See Section 2.14.2)

2.14 Property Management

2.14.1 *Tenancy Services Agreement*

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

2.14.2 *Property Management Fee*

As advised by GZI, the monthly management fee paid by the tenants for the Subject Property is RMB48 per sq.m. which is at the market level of similar developments in the locality.

Name of Building	**Monthly Management fee** *(RMB/sq.m.)*
Teemall (天河城)	58
Center Plaza (中泰國際廣場)	45
Grand View Mall (正佳廣場)	58
Time Square (時代廣場)	46

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

In this valuation approach, the total rental income is divided into the term income and 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 brought back to the date of valuation.

To bring the reversionary value back to the current date, we have used a present value rate which is the same as the reversionary yield for the Subject Property. The present value is the current monetary value of future cash flows and reflects the opportunity cost of an investment in a similar asset which would be expected to return a similar remunerative return as the Subject Property.

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

For the Subject Property, the typical net monthly rentals as at the date of valuation for Basement to Level 6 were as follows:

Level	Range of the Typical Net Monthly Rental Income			Current Market Rental Income Level	Comparison (Below or Above Market Rental Income)
	From	To	Average		
		(RMB/sq.m.)		*(RMB/sq.m.)*	
Basement	170	170	170	216	Below
Level 1	84	414	180	360	Below
Level 2	90	90	90	288	Below
Level 3	78	172	94	252	Below
Level 4	80	128	81	216	Below
Level 5	47	47	47	198	Below
Level 6	45	56	52	180	Below

We are of the opinion that the current passing rentals were generally below the market level for each level of the Subject Property as at the date of valuation.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality in 2004 and we consider the comparables are sufficient to derive the market rental of the Subject Property.

The details of the rentals comparables are as follows:

	Comparable 1	**Comparable 2**	**Comparable 3**	**Comparable 4**
Address	Lin He Xi Road	Lin He Xi Road	Tian He Road	Tian He Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	Dec-04	Dec-04	May-04	Apr-04
Unit	A shop unit	A shop unit	A shop unit	A shop unit
Level	1	1	1	1
Gross Floor Area (sq.m.)	505.0	223.8	30.0	45.5
Date of Completion	2004	2004	1995	1995
Nature of Transaction	Transacted	Transacted	Transacted	Transacted
Lease Term (year)	5.00	6.00	6.00	6.00
Lease Commencement Date	1-Nov-04	16-Oct-04	26-May-04	Jun-04
Lease Expiry Date	31-Oct-09	15-Oct-10	25-May-10	Jun-10
Net Monthly Rental Income on GFA (RMB)	75,750	31,329	37,800	45,500
Net Monthly Rental Income on GFA (RMB/sq.m.)	150	140	1,260	1,000
Adjusted Net Monthly Rental Income on GFA (RMB/sq.m.)	191	162	607	482

We have had regard to four comparables in deriving the rental income of the podium level of the Subject Property. Adjustments have been made for time, location, building quality, size and pedestrian flow. The adjusted rental income of these comparables range from RMB162/sq.m. to RMB607/sq.m. Taking the average of all the four comparables will give a monthly unit rental income of approximately RMB360/sq.m. for Level 1 of the podium of the Subject Property. By allowing different percentage of discount for different levels, the monthly unit market rental income for different levels is shown below:

Level	**Discount Allowed** *(%)*	**Unit Monthly Market Rental Income** *(RMB/sq.m.)*
Basement	40%	216
Level 1	0%	360
Level 2	20%	288
Level 3	30%	252
Level 4	40%	216
Level 5	45%	198
Level 6	50%	180

The existing monthly net rental income as at the date of valuation was RMB2,575,219 and it is anticipated that the development will maintain the current occupancy level of 100% which is higher than the occupancy rate of similar type of buildings in the market.

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

The reversionary yields are based on an analysis of the unit market rental income and the unit market value of the comparables collected for the Subject Property. From the previous analysis, the unit market rental income for Level 1 of the retail podium is RMB360/sq.m. In Section 3.3, the unit market value for Level 1 is RMB40,300/sq.m. The market yield is 10.7%. We have adopted 10.5% as the reversionary yield for the retail component of the Subject Property which is in line with the market comparable transactions as follows:

Retail market:

Unit	Level	Address	Gross Floor Area *(sq.m.)*	Date of Transaction	Actual Transaction Price *(RMB)*	Sale Price per sq.m. *(RMB/sq.m.)*	Estimated Unit Annual Market Net Rental Income as at the Date of Transaction *(RMB/sq.m.)* *(Note 1)*	Occupancy Status as at the date of Transaction	Market Yield *(Note 2)*
Whole	1, 2 & B1	Confidential	35,000	End of 2004	265,000,000	7,571	796	20 years Sale and Leaseback	10.5%
Whole	1	Ti Yu Xi Road	1,147	Sept-04	51,608,075	44,994	4,752	Vacant	10.6%
B205	1	Confidential	15.6	Sept-05	1,244,800	79,795	9,600	Vacant	12.0%
B107	1	Confidential	16.5	Sept-05	1,405,050	85,155	10,260	Vacant	12.0%
Three shop units	1	Ti Yu Dong Road	463	Sept-04	10,645,780	22,993	2,688	Vacant	11.7%

Notes:

1) The estimated market net rental income is based on our analysis of recent lettings of comparable properties.

2) The market yield is the estimated market net rental income per annum divided by the actual transaction price.

The comparables were sourced from the Colliers International database and were calculated based on the comparable general location. Due to the limited number of whole building sales, sales of smaller units in the locality were also used.

We have valued the Subject Property at a value of HK$475,000,000.

The summary is as follows:

Property	Term Yield	Reversionary Yield	Value *(HK$)*	Unit Rate on Gross Floor Area *(HK$/sq.m.)*
Victory Plaza	8.5%	10.5%	475,000,000	17,149

3.2 Discounted Cash Flow Analysis

This is defined in the International Valuation Standards Committee (7th Edition), as a financial modeling technique based on explicit assumptions regarding the prospective cash flow to operating real 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 rental income stream associated with the properties. In the case of operating real properties, periodic cash flow is typically estimated as gross rental income less vacancy, bad debts, impact of taxes (stamp duty, urban real estate tax, flood prevention works maintenance fee and business tax), service fees and other operating expenses. 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 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 reminder 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 investment income producing properties.

For the Subject Property, the terminal capitalisation rate adopted within our calculation is 9%. This is based on our analysis of the term yields applicable in the marketplace as set out in Section 3.1 with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Subject Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings. Based on the above, we consider that the market expectations are around 10% to 12% for retail properties. We note that the yield of 10-year Exchange Fund Notes issued by the Hong Kong Monetary Authority as at 30 September 2005 is in the order of 4.17%, indicating a risk premium of between 5.83% and 7.83%. Based on our analysis of comparable sales in the international market, the higher premium reflects the inherent investment risks associated with the PRC and the property risk. We consider that Hong Kong is the closest mature market to the PRC and it is more appropriate to adopt the Hong Kong risk free rate for the PRC property investment.

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. The adopted rental income growth rates are in line with the forecasts as detailed in the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

An annual vacancy allowance and allowance for bad debts have been considered within the portfolio. An annual vacancy allowance is about 1%, which is made reference to the current vacancy. With reference to the historical bad debts ratios, we consider that the bad debts allowance should be 1% of the net rent received. In the case of the Victory Plaza units, there were no bad debts during the relevant periods.

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

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

In our calculation, we have not deducted any acquisition costs and disposal costs. We are of the opinion that these issues would be taken into account buy a prospective purchaser.

In preparing our valuations for the Subject Property, we have had regard to asking or transacted rental income comparables within similar retail developments in the locality. For details, reference should be made to Section 3.1 of this report.

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

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

The growth rates are based on our local market research. We have also made reference to the Market Research Report prepared by Cushman & Wakefield (HK) Limited.

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

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

Projected Outgoings Items	Projected Outgoings
Service Fees based on the tenancy services agreement	4% of gross rental income
Cost for Large Scale Repair and Maintenance as advised by GZI	Nil in 2005 RMB410,000 in 2006 RMB1,040,000 in 2007 RMB427,600 in 2008 RMB410,000 in 2009 RMB380,000 in 2010 RMB230,000 in 2011 RMB820,000 in 2012 RMB181,000 in 2013 RMB598,000 in 2014 RMB1,221,900 in 2015
Sundry Expenses	0.2% of rental income
Insurance	Fixed Amount
Business Tax	5.0% of rental income
Flood Prevention Works Maintenance Fee	0.09% of rental income
Urban Real Estate Tax	original cost of property x 70% x 1.2%
Stamp Duty	0.1% of gross rental income

No immediate capital expenditure is included as a projected outgoings item with reference to the Building Condition Survey Report.

Based on the above, we have valued the Subject Property at a value of HK$591,000,000 taking account of outgoings on the taxes and cost items.

The summary is as follows:

Property	Capitalisation Rate	Discount Rate	Value	Unit Rate on Gross Floor Area
			(HK$)	*(HK$/sq.m.)*
Victory Plaza	9%	11%	591,000,000	21,337

3.3 Sales Comparison Approach

In the Sales Comparison Approach, we have considered the sales of similar properties and related market data and established a value by adjustment of the comparables. In general, the Subject Property is compared with sales of similar properties that have been transacted in the open market.

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

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed transactions from a variety of similar type of buildings in the locality in 2004 and we consider the comparables are sufficient to derive the market value of the Subject Porperty.

Adjustments have been made for various factors such as location, building age, efficiency and time. The details are as follows:

	Comparable 1	**Comparable 2**	**Comparable 3**	**Comparable 4**	**Comparable 5**	**Comparable 6**	**Comparable 7**
Address	Tiyu Dong Road	Tiyu Dong Road	Tiyu Dong Road	Tiyu Dong Road	Tiyu Dong Road	Tiyu Dong Road	Ti Yu Xi Road
District	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)	Tian He District (天河區)
Date of Transaction	May-04	Jul-04	Jul-04	Sep-04	Sep-04	Sep-04	Sep-04
Unit	A Shop Unit	A Shop Unit	A Shop Unit	A Shop Unit	A Shop Unit	A Shop Unit	A Shop Unit
Level	1	1	1	1	1	1	1
Gross Floor Area (sq.m.)	105.2	83.6	65.3	59.7	59.7	343.4	1,146.9
Date of Completion	2003	2003	2003	2003	2003	2003	2003
Nature of Transaction	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted	Transacted
Transacted Price on GFA (RMB)	7,150,880	4,920,955	4,041,651	1,374,020	1,374,020	7,897,740	51,608,075
Transacted Price on GFA (RMB/sq.m.)	67,974	58,863	61,893	23,015	23,015	22,999	44,998
Adjusted Transacted Price on GFA (RMB/sq.m.)	57,727	49,946	52,575	27,893	27,893	27,893	38,201

Adjustments have been made based on our own judgement and knowledge of market. We have had regard to seven comparables in deriving the unit market value of Level 1 retail shop of the Subject Property. Comparable 1 to 6 are located in one building whereas Comparable 7 is close to the Subject Property. Adjustments have been made for time, location, building quality, size and etc. The adjusted unit rates of these comparables range from RMB27,893 to 57,727/sq.m. Taking the average of Comparable 1 to 7 will give a unit rate of approximately RMB40,300/sq.m. and we are of the opinion that it is a reasonable unit rate for retail shop on Level 1 of the Subject Property.

By allowing different percentage of discount for different levels, the unit market value for different levels is shown below:

Level	Discount Allowed *(%)*	Unit Market Value *(RMB/sq.m.)*
Basement	40%	24,180
Level 1	0%	40,300
Level 2	20%	32,240
Level 3	30%	28,210
Level 4	40%	24,180
Level 5	45%	22,165
Level 6	50%	20,150

Based on the above, we have valued the Subject Property at a value of HK$558,000,000.

The summary is as follows:

Property	Value *(HK$)*	Unit Rate on Gross Floor Area *(HK$/sq.m.)*
Victory Plaza	558,000,000	20,146

4. VALUATION SUMMARY

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

Valuation Method	Value *(HK$)*
Income Capitalisation	475,000,000
Discounted Cash Flow	591,000,000
Sales Comparison	558,000,000

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

1. INDEBTEDNESS

Borrowings

As at the close of business on 30 September 2005, being the latest practicable date of the purpose of this indebtedness statement prior to the printing of this circular, the GZI Group had total outstanding borrowings of approximately HK$6,885 million, comprising secured bank borrowings of approximately HK$4,840 million, unsecured bank borrowings of approximately HK$1,302 million, unsecured other borrowings of approximately HK$743 million, and obligations under finance leases of approximately HK$0.1 million.

Capital commitments

As at 30 September 2005, the GZI Group had capital commitments of approximately HK$25 million in respect of purchase of fixed assets, which were contracted but not provided for.

As at 30 September 2005, the GZI Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK$193.9 million.

Pledge of assets

As at 30 September 2005, namely as banking facilities and loans granted to the GZI Group mentioned above were secured by the following:

(a) certain of the GZI Group's fixed assets, properties held for/under development, properties held for sale and investment properties with an aggregate carrying value of approximately HK$44 million, HK$736 million, HK$520 million and HK$3,853 million respectively;

(b) floating charge over certain assets of certain subsidiaries with aggregate net book value of approximately HK$6,480 million; and

(c) mortgages of the GZI Group's shareholdings in certain subsidiaries.

Guarantees to certain banks for mortgage facilities

As at 30 September 2005, the GZI Group had provided guarantees to certain banks for mortgage facilities granted to certain buyers of the GZI Group's properties of approximately HK$126 million.

Contingent liabilities

At 30 September 2005, the GZI Group has pledged its income to be derived from its 24.3 per cent effective interest in an associated company to a bank in favour of a joint venture partner in this associated company (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to RMB500 million (approximately HK$467 million) and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the GZI Group against all liabilities arising from such pledge. In addition, Yue Xiu has issued an indemnity to the GZI Group under which any shortfall between the counter indemnity give by the Joint Venture Partner and the Relevant Loan to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the GZI Group is insufficient to cover the Relevant Loan.

Disclaimer

Save as disclosed herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the GZI Group, the GZI Group did not have any outstanding mortgages, charges or bank overdrafts, loans and other similar indebtedness or acceptance of credit or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 30 September 2005.

Save as disclosed above, the Directors have confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the GZI Group since 30 September 2005.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 September 2005.

2. MATERIAL ADVERSE CHANGES

Save as disclosed in this circular, the Directors have confirmed that there has not been any material adverse change in the financial or trading position of the GZI Group since 30 September 2005.

3. WORKING CAPITAL

The Directors are of the opinion that, upon completion of the Proposed Spin-off and after taking into account the present available banking facilities and internal resources of the GZI Group, the GZI Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of this circular.

4. SUMMARY OF AUDITED FINANCIAL RESULTS OF THE GZI GROUP

The following is a summary of the audited consolidated results of the GZI Group for each of the three years ended 31 December 2004 and the audited consolidated balance sheets of the GZI Group as at 31 December 2002, 2003 and 2004. The information is extracted from the audited consolidated financial statements of the GZI Group:

Consolidated profit and loss account

	For the year ended 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	4,526,679	3,925,109	3,225,473
Cost of sales	(3,473,912)	(2,758,973)	(2,251,555)
Gross profit	1,052,767	1,166,136	973,918
Other revenues	35,556	31,549	19,110
Selling and distribution expenses	(178,451)	(127,154)	(148,420)
General and administrative expenses	(392,143)	(414,033)	(521,909)
Reversal of provision for doubtful debt	104,942	—	—
Loss on deemed disposal of certain interests in a subsidiary	(481)	(94,942)	(7,773)
Write-back/(write-down) of properties held for/under development to net realisable value	44,546	(5,805)	(542,160)
Revaluation surplus/(deficit) on investment properties	76,750	165,840	(240,550)
Provision for impairment of			
— fixed assets	—	—	(52,974)
— other investments	—	—	(56,052)
Profit/(loss) from operations	743,486	721,591	(576,810)
Finance costs	(112,512)	(224,733)	(185,986)
Share of profits less losses of			
— jointly controlled entities	(23,021)	(49,693)	(25,709)
— associated companies	214,382	181,767	100,159
Provision for impairment of interest in			
— a jointly controlled entity	—	—	(111,655)
Profit/(loss) before taxation	822,335	628,932	(800,001)
Taxation	(210,565)	(114,599)	2,316

	For the year ended 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) after taxation	611,770	514,333	(797,685)
Minority interests	(280,947)	(213,680)	(162,545)
Profit/(loss) attributable to shareholders	330,823	300,653	(960,230)
Dividends	109,797	117,540	—
Earnings/(loss) per share			
Basic	HK5.24 cents	HK4.89 cents	HK(23.90) cents
Fully diluted	HK5.15 cents	HK4.83 cents	—

Assets, liabilities and minority interests

	As at 31 December		
	2004	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	10,452,657	10,665,561	9,403,639
Current assets	14,748,366	15,120,357	17,281,376
	25,201,023	25,785,918	26,685,015
Current liabilities	6,830,224	7,196,223	8,646,460
Non-current liabilities	7,668,691	8,245,513	7,521,157
	14,498,915	15,441,736	16,167,617
Minority interests	3,467,807	3,374,822	3,807,351
Net assets value	7,234,301	6,969,360	6,710,047

5. AUDITED FINANCIAL INFORMATION OF THE GZI GROUP

The following is a summary of the audited consolidated profit and loss account of the GZI Group for each of the two years ended 31 December 2004, the audited consolidated balance sheets of the GZI Group as at 31 December 2003 and 2004, the audited consolidated statement of changes in equity for the two years ended 31 December 2004 and the audited cash flow statement of the GZI Group for the two years ended 31 December 2004 together with the notes thereto as extracted from the annual report of the Company for the year ended 31 December 2004:

Consolidated profit and loss account

For the year ended 31 December

	Note	**2004** *HK$'000*	**2003** *HK$'000*
Turnover	2	4,526,679	3,925,109
Cost of sales		(3,473,912)	(2,758,973)
Gross profit		1,052,767	1,166,136
Other revenues	2	35,556	31,549
Selling and distribution expenses		(178,451)	(127,154)
General and administrative expenses		(392,143)	(414,033)
Reversal of provision for doubtful debt	3	104,942	—
Loss on deemed disposal of certain interests in a subsidiary	4	(481)	(94,942)
Write-back/(write-down) of properties held for/under development to net realisable value	5	44,546	(5,805)
Revaluation surplus on investment properties		76,750	165,840
Profit from operations	6	743,486	721,591
Finance costs	7	(112,512)	(224,733)
Share of profits less losses of			
— jointly controlled entities		(23,021)	(49,693)
— associated companies		214,382	181,767
Profit before taxation		822,335	628,932
Taxation	8	(210,565)	(114,599)
Profit after taxation		611,770	514,333
Minority interests		(280,947)	(213,680)
Profit attributable to shareholders	9	330,823	300,653
Dividends	10	109,797	117,540
Earnings per share	11		
Basic		HK5.24 cents	HK4.89 cents
Fully diluted		HK5.15 cents	HK4.83 cents

Consolidated balance sheet

As at 31 December

	Note	**2004**	**2003**
		HK$'000	*HK$'000*
Non-current assets			
Interests in toll highways and bridges	14	2,001,376	2,099,647
Other intangible assets	15	(489,960)	(535,253)
Fixed assets	16	6,216,630	6,251,082
Deferred tax assets	32	56,199	39,061
Interests in jointly controlled entities	18	646,717	798,064
Interests in associated companies	19	1,760,348	1,753,109
Other investments	20	261,347	259,851
		10,452,657	10,665,561
Current assets			
Properties held for/under development	21	10,302,017	10,244,614
Properties held for sale	21	2,189,758	2,455,354
Inventories	22	195,288	220,127
Amounts due from related companies	23	3,234	3,678
Trade receivables	24	562,768	667,094
Other receivables, prepayments and deposits		593,644	454,196
Bank and cash balances	25	901,657	1,075,294
		14,748,366	15,120,357
Current liabilities			
Trade payables	26	414,493	447,600
Land premium payable		729,410	708,300
Other payables and accrued charges		3,083,250	3,195,338
Amounts due to jointly controlled entities	18	123,442	75,340
Amounts due to associated companies	19	112,150	112,221
Amounts due to minority shareholders of subsidiaries	23	186,831	179,135
Bank loans			
— secured	38	453,644	838,692
— unsecured		608,919	681,797
Bank overdrafts — unsecured		24,763	39,486
Current portion of long-term bank loans	30	959,499	875,394
Current portion of other long-term loans	31	25	14
Taxation payable		133,798	42,906
		6,830,224	7,196,223

	Note	**2004** *HK$'000*	**2003** *HK$'000*
Net current assets		7,918,142	7,924,134
Total assets less current liabilities		18,370,799	18,589,695
Non-current liabilities			
Long-term bank loans	30	3,147,665	3,642,450
Other long-term loans	31	890,747	952,527
Deferred tax liabilities	32	3,630,279	3,650,536
		7,668,691	8,245,513
Minority interests		3,467,807	3,374,822
Net assets		7,234,301	6,969,360
Financed by:			
Share capital	27	635,160	624,872
Reserves	29	6,599,141	6,344,488
Shareholders' funds		7,234,301	6,969,360

Balance sheet

As at 31 December

	Note	**2004**	**2003**
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets	16	22,563	20,574
Investments in subsidiaries	17	9,957,686	9,851,230
		9,980,249	9,871,804
Current assets			
Other receivables, prepayments and deposits		30,595	42,733
Bank and cash balances	25	39,832	190,394
		70,427	233,127
Current liabilities			
Amounts due to subsidiaries	17	377,464	354,938
Other payables and accrued charges		39,441	42,495
Bank loan — secured	38	120,000	120,000
Bank overdrafts — unsecured		—	9,993
Current portion of long-term bank loans	30	513,935	367,452
Current portion of other long-term loans	31	25	14
		1,050,865	894,892
Net current liabilities		(980,438)	(661,765)
Total assets less current liabilities		8,999,811	9,210,039
Non-current liabilities			
Long-term bank loans	30	1,807,298	2,204,231
Other long-term loans	31	509,348	345,850
		2,316,646	2,550,081
Net assets		6,683,165	6,659,958
Financed by:			
Share capital	27	635,160	624,872
Reserves	29	6,048,005	6,035,086
Shareholders' funds		6,683,165	6,659,958

Consolidated cash flow statement

For the year ended 31 December

	Note	**2004** *HK$'000*	**2003** *HK$'000*
Net cash inflow generated from operations	33(a)	1,432,275	991,747
Interest received		5,587	8,450
Interest paid		(167,911)	(242,055)
Hong Kong profits tax paid		(1,558)	(2,059)
China enterprise income tax paid and land appreciation tax paid		(118,344)	(108,110)
Net cash inflow from operating activities		1,150,049	647,973
Investing activities			
Dividends received from jointly controlled entities and associated companies		94,060	125,012
Dividends received from other investments		14,904	32,392
Investment in toll highway and bridges		(3,121)	(11,223)
Purchases of fixed assets		(202,338)	(200,906)
Sale of fixed assets		39,972	7,036
Purchase of subsidiaries	33(b)	2,339	16,683
Disposal of certain interests in a subsidiary	33(c)	—	8,639
Issue of a subsidiary's shares to its minority shareholders		315	56,818
Capital injection into a jointly controlled entity		(82,160)	—
Disposal of a jointly controlled entity		—	59,346
Purchases of other investments		(1,496)	—
(Advance to)/repayment from associated companies and jointly controlled entities		(5,124)	11,409
Net cash (outflow)/inflow from investing activities		(142,649)	105,206

	Note	**2004**	**2003**
		HK$'000	*HK$'000*
Financing activities	33(d)		
Issue of ordinary shares		43,643	43,725
Capital contribution from minority shareholders of subsidiaries		4,476	6,037
Advance from associated companies		48,031	2,399
New bank loans		932,996	2,252,575
Repayment of bank loans		(1,801,602)	(3,005,352)
Addition of other borrowings		177,745	183,093
Repayment of other borrowings		(231,818)	(19,356)
Dividends paid		(120,792)	(49,502)
Dividends paid to minority shareholders of subsidiaries		(218,993)	(176,325)
Net cash outflow from financing activities		(1,166,314)	(762,706)
Decrease in cash and cash equivalents		(158,914)	(9,527)
Cash and cash equivalents at the beginning of year		1,035,808	1,045,335
Cash and cash equivalents at the end of year		876,894	1,035,808
Analysis of balances of cash and cash equivalents			
Bank balances and cash		901,657	1,075,294
Bank overdrafts		(24,763)	(39,486)
		876,894	1,035,808

Consolidated statement of changes in equity

For the year ended 31 December

	Note	**2004**	**2003**
		HK$'000	*HK$'000*
Total equity as at 1 January		6,969,360	6,710,047
Exchange differences arising on translation of the accounts of foreign subsidiaries, associated companies and jointly controlled entities	29	(1,588)	3,748
Release of reserve upon disposal of properties held for/under development and properties held for sale	29	(30,675)	(66,070)
Release of reserve upon deemed disposal of certain interest in a subsidiary	29	(3)	(547)
Provision for impairment of goodwill	29	43,533	—
Net gain/(loss) not recognised in the profit and loss account		11,267	(62,869)
Profit attributable to shareholders	29	330,823	300,653
Dividends paid	29	(120,792)	(49,502)
Issue of shares net of issuing expenses	27 & 29	43,643	71,031
Total equity as at 31 December		7,234,301	6,969,360

Notes to the financial information

31 December 2004

1 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that investment properties are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The GZI Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The GZI Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) **Basis of preparation**

The accounts have been prepared on a going concern basis as the Company Directors and the GZI Group's management are confident that the GZI Group's short-term bank borrowings and current portion of long-term bank borrowings will either be rolled over or replaced by new sources of financing when they become due.

(b) **Group accounting**

(i) *Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the GZI Group controls the composition of the Board of Directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the GZI Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the GZI Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(ii) *Jointly controlled entities*

A jointly controlled entity is a contractual arrangement whereby the GZI Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the GZI Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the GZI Group's share of the net assets of the jointly controlled entities and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(iii) *Associated companies*

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the GZI Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the GZI Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the GZI Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) **Fixed assets**

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) *Other properties*

Other properties are interests in land and buildings other than investment properties and are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on leasehold land and buildings is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the GZI Group, whichever is shorter. The principal annual rates used for this purpose are as follows:

Leasehold land	2 to 3 per cent
Buildings	2 to 4 per cent

(iii) *Production facilities under construction*

Production facilities under construction are stated at cost which comprise costs of construction, purchase cost of plant and machinery pending installation and interest charges arising from borrowings used to finance the construction.

No depreciation is provided for production facilities under construction until they are completed and put into commercial use.

(iv) *Other fixed assets*

Other fixed assets, comprising plant and machinery and tools, leasehold improvements, furniture, fixtures and office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Plant and machinery and tools	5 to 33 per cent
Leasehold improvements, furniture, fixtures and office equipment	20 per cent
Motor vehicles	20 to 33 per cent

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the GZI Group.

(v) *Impairment and gain or loss on disposal of fixed assets*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(d) **Assets under leases**

(i) *Finance leases*

Leases that substantially transfer to the GZI Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) **Interests in toll highways and bridges**

Interests in toll highways and bridges comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructure is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets. The GZI Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change. Amortisation of intangible operating rights is provided on a straight-line basis over periods of 20 to 30 years in which the operating rights are held.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that interests in toll highways and bridges are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(f) **Intangibles**

(i) *Goodwill/negative goodwill*

Goodwill represents the excess of the cost of an acquisition over the GZI Group's share of the fair value of the net assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges is amortised using the straight-line method over the maximum period of 20 years. Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

Negative goodwill represents the excess of the GZI Group's share of the fair value of the net assets acquired over the cost of acquisition and is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the GZI Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably, negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in the operation of toll highways or bridges is amortised using the straight-line method over the maximum period of 20 years whereas negative goodwill on acquisition of subsidiary/associated company/jointly controlled entity engaged in property investment not exceeding the fair values of the non-monetary assets acquired is amortised on the following bases:

- Properties under development and properties held for sales — amortisation is calculated based on the actual area of properties sold over the total available saleable area.

- Investment properties — amortisation is calculated using the straight-line method over the maximum period of 20 years.

Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Goodwill/negative goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on goodwill is accounted for in the profit and loss account.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for acquisitions prior to 1 January 2001, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(ii) *Research and development costs*

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(g) **Other investments**

Other investments held for long term are stated at cost less accumulated impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

If the rights and interest in investments are to be surrendered by the GZI Group upon the termination of related joint venture period, amortisation is provided to write off its cost over the joint venture period on a straight-line basis. The results of other investments are accounted for on the basis of dividends received and receivable.

(h) **Properties held for/under development**

Properties held for/under development are stated at cost which comprises land cost, development and construction expenditures net of incidental rental income, borrowing costs capitalised and other direct costs attributable to the development, plus attributable profits recognised on the basis set out in note 1(q)(ii) taken up to date, less provisions for foreseeable losses and sales instalments received.

(i) **Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development and construction expenditure, borrowing costs capitalised and other incidental costs. Net realisable value is the estimated price at which a property can be realised less related expenses.

(j) **Inventories**

Inventories, comprise stock and work in progress, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) **Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(l) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(m) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the GZI Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the GZI Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) **Employee benefits**

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employers. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The GZI Group's contributions to the defined contribution retirement schemes are expensed as incurred and reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the GZI Group in an independently administered fund.

(iii) *Medical benefits*

The GZI Group's contributions to defined contribution medical benefit scheme are expensed as incurred.

(p) **Government grants**

A government grant is recognised, when there is a reasonable assurance that the GZI Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(q) **Revenue and profit recognition**

(i) Revenues arising from the sale of properties held for sale are recognised on the execution of the legally binding contracts of sale.

(ii) The recognition of revenues from the sale of properties held for/under development in advance of completion commences when a legally binding contract of sale has been executed.

When properties held for/under development are sold in advance of completion, and there is reasonable certainty as to the outcome of the property development projects, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. The profit is computed each year as a proportion of the total estimated profit to completion, the proportion used being the proportion of construction costs incurred at the balance sheet date to total estimated construction costs to completion, limited to the amount of sales instalments received and subject to due allowance for contingencies.

Where purchasers fail to pay the balance of the purchase price on completion and the GZI Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit, any profits previously recognised in accordance with the aforesaid policy are reversed.

(iii) Operating lease rental income is recognised on a straight-line basis.

(iv) Revenue from property management is recognised in the period in which the services are rendered.

(v) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(vi) Toll revenue, net of revenue tax, is recognised on a receipt basis.

(vii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(viii) Dividend income is recognised when the right to receive payment is established.

(ix) Agency fee revenue from property broking are recognised when the relevant agreement becomes unconditional or irrevocable.

(r) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(s) **Segment reporting**

In accordance with the GZI Group's internal financial reporting the GZI Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, properties held for/under development, properties held for sale, property development projects, receivables, interests in jointly controlled entities and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to interests in toll highways and bridges (note 14) and fixed assets (note 16).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The GZI Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties and manufacturing and trading of newsprint. Revenues recognised are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Turnover		
Toll revenue from toll operations	400,212	428,873
Property management fee income	114,610	70,760
Rental income		
- Properties	367,050	319,066
- Car park	65,339	58,908
Sales revenue		
- Sales of properties	1,987,231	1,955,105
- Sales of newsprint	1,240,693	1,006,263
- Others	351,544	86,134
	4,526,679	3,925,109
Other revenues		
Interest income	5,587	8,450
Dividend income	14,904	3,483
Commission on properties sales and rental	15,065	19,616
	35,556	31,549
Total revenues	4,562,235	3,956,658

Turnover and segment results for the period are as follows:

Primary reporting format — business segments

The GZI Group operates mainly in Hong Kong and Mainland of China ("China") and in three main business segments:

- Properties — development, selling and management of properties and holding of investment properties
- Toll operations — development, operation and management of toll highways and bridges
- Paper — manufacturing and selling of newsprint paper

There are no significant sales between the business segments.

Secondary reporting format — geographical segments

The GZI Group's three business segments are mainly managed in Hong Kong and China:

Hong Kong — properties
China — toll operations, properties, and paper
Others — properties

There are no significant sales between the geographical segments.

Primary reporting format — business segments

	Toll operations		Properties		Paper		Group	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	400,212	428,873	2,885,774	2,489,973	1,240,693	1,006,263	4,526,679	3,925,109
Segment results	148,790	185,289	530,881	591,423	95,296	90,293	774,967	867,005
Interest income							5,587	8,450
Loss on deemed disposal of certain interests in a subsidiary							(481)	(94,942)
Unallocated operating costs							(36,587)	(58,922)
Finance costs							(112,512)	(224,733)
Share of profits less (losses) of:								
Jointly controlled entities	13,772	(20,419)	(36,793)	(29,274)	—	—	(23,021)	(49,693)
Associated companies	214,382	181,607	—	160	—	—	214,382	181,767
Profit before taxation							822,335	628,932
Taxation							(210,565)	(114,599)
Profit after taxation							611,770	514,333
Minority interests							(280,947)	(213,680)
Profit attributable to shareholders							330,823	300,653
Segment assets	2,229,404	2,335,043	18,052,478	18,062,645	1,495,642	1,716,186	21,777,524	22,113,874
Interests in jointly controlled entities	422,892	330,621	223,825	467,443	—	—	646,717	798,064
Interests in associated companies	1,671,842	1,671,076	88,506	82,033	—	—	1,760,348	1,753,109
Unallocated assets							1,016,434	1,120,871
Total assets							25,201,023	25,785,918
Segment liabilities	565,843	575,491	4,350,840	4,513,596	221,621	245,410	5,138,304	5,334,497
Unallocated liabilities							9,360,611	10,107,239
Total liabilities							14,498,915	15,441,736
Capital expenditure	3,788	20,703	133,368	101,407	68,303	107,704	205,459	229,814
Depreciation and amortisation	113,871	111,113	(21,361)	(29,791)	118,931	102,958	211,441	184,280

Secondary reporting format — geographical segments

	Turnover		Total assets		Capital expenditure	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	448,891	180,674	1,407,288	1,490,990	28,253	1,611
China	4,051,641	3,741,675	22,730,719	23,121,470	177,206	228,097
Overseas	26,147	2,760	46,582	52,587	—	106
	4,526,679	3,925,109	24,184,589	24,665,047	205,459	229,814
Unallocated assets			1,016,434	1,120,871		
Total assets			25,201,023	25,785,918		

3 REVERSAL OF PROVISION FOR DOUBTFUL DEBT

This relates to a receivable fully provided for in previous years as there was uncertainty on its ultimate recoverability. During the year, the GZI Group's directors made a reassessment and concluded that the circumstances leading to the provision no longer exist and therefore, a reversal is made.

4 LOSS ON DEEMED DISPOSAL OF CERTAIN INTERESTS IN A SUBSIDIARY

During the year ended 31 December 2004, GZI Transport Limited ("GZT") issued 416,000 (2003: 64,448,000) shares upon the exercise of GZT's employee share options and consequently the Company's effective interest in GZT was reduced by 0.02% (2003: 2.66%). This results in a deemed disposal loss of HK$481,000 (2003: HK$94,942,000).

5 WRITE-BACK/(WRITE-DOWN) OF PROPERTIES HELD FOR/UNDER DEVELOPMENT TO NET REALISABLE VALUE

	2004	**2003**
	HK$'000	*HK$'000*
Write-back/(write-down) of properties held for/ under development to net realisable value	44,546	(5,805)

Certain properties held for/under development were written down to net realisable value in previous years. Due to the increase in the market value of these properties during the year, a write-back of the provision is made.

6 PROFIT FROM OPERATIONS

Profit from operations is stated after crediting and charging the following:

	2004	2003
	HK$'000	*HK$'000*
Crediting		
Gross rental income from investment properties	300,747	292,380
Less: direct outgoings	(27,486)	(29,530)
Net rental income from investment properties	273,261	262,850
Amortisation of negative goodwill		
- Included in cost of sales	42,007	37,811
- Included in administrative expenses	6,960	6,959
Write-back of other payables	1,300	45,527
Net exchange gain	2,275	6,367
Charging		
Auditors' remuneration	4,607	4,944
Advertising expenses	129,997	96,443
Cost of inventories sold	3,202,685	2,508,535
Depreciation		
- Owned fixed assets	148,544	119,521
- Leased fixed assets	23	14
Amortisation/depreciation of interests in toll highways and bridges (included in cost of sales)	101,392	98,163
Amortisation of goodwill (included in administrative expenses)	10,449	11,352
Loss on disposal of certain interests in a subsidiary	—	998
Loss on disposal of fixed assets	6,436	27,628
Loss on disposal of other investments	—	1,059
Staff costs *(note 12)*	299,642	259,386
Operating leases		
- Hire of plant and workshops *(note 39(a))*	16,215	17,350
- Land and buildings	47,783	43,654
Provision for doubtful debts	5,933	68,659

7 FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	135,656	230,458
Interest element of finance leases	—	70
Premium on redemption of convertible bonds	—	1,950
Interests on		
- amount due to a minority shareholder of a subsidiary	4,643	—
- loan from the ultimate holding company	3,455	3,977
- loan from related companies	1,031	721
- convertible bonds	—	3,544
- other loans	23,126	3,285
Total borrowing costs incurred	167,911	244,005
Less: amount capitalised to properties held for/under development *(note (i))*	(55,399)	(19,272)
	112,512	224,733

Note:

(i) The average interest rate of borrowing costs capitalised for the year ended 31 December 2004 was approximately 4.76 per cent per annum (2003: 5.31 per cent per annum).

8 TAXATION

(a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2003: 17.5 per cent) on the estimated assessable profit for the year.

(b) China enterprise income taxation is provided on the profits of the GZI Group's subsidiaries, associated companies and jointly controlled entities in China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at rates ranging from 18 per cent to 33 per cent. Under the China Tax Law, certain of the GZI Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.

(c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditures.

(d) The amount of taxation charged to the consolidated profit and loss account represents:

	2004	2003
	HK$'000	*HK$'000*
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	1,547	1,627
China enterprise income tax	135,656	78,974
China land appreciation tax	68,295	42,544
Under/(over)provision in prior years	5,296	(6,051)
Deferred taxation relating to the reversal of temporary differences	(31,852)	(30,949)
Deferred taxation resulting from an increase in tax rate	—	(1,019)
	178,942	85,126
Associated companies		
Share of China enterprise income tax	13,990	5,814
Share of deferred taxation	11,589	17,782
Jointly controlled entities		
Share of deferred taxation	6,044	5,877
Taxation charges	210,565	114,599

The taxation on the GZI Group's profit before taxation differs from the theoretical amount that would arise using the enterprise income tax rate of China, the home country of the GZI Group, as follows:

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	822,335	628,932
Calculated at China enterprise income tax rate of 33 per cent *(note (i))* (2003: 33 per cent)	271,371	207,548
Effect of different taxation rates	(81,351)	(53,250)
Increase in opening net deferred tax assets resulting from an increase in tax rate	—	(1,019)
Effect of tax concession under tax holiday	(201)	(263)
Income not subject to taxation	(22,132)	(29,677)
Expenses not deductible for taxation purposes	36,246	44,051
Net effect of tax losses not recognised and utilisation of previously unrecognised tax losses	13,663	(8,094)
Under/(over)provision in prior years	5,296	(6,051)
Effect of land appreciation tax deductible for calculation of income tax purposes	6,071	19,035
	228,963	172,280
Land appreciation tax	(18,398)	(57,681)
Taxation charges	210,565	114,599

Note:

(i) The rate of China enterprise income tax was adopted as majority of the GZI Group's operations were carried out in China.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$100,356,000 (2003: HK$62,170,000).

10 DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Interim, paid, of HK$0.0083 (2003: HK$0.008) per ordinary share	52,531	49,502
Final, proposed, of HK$0.009 (2003: HK$0.0108) per ordinary share	57,266	68,038
	109,797	117,540

At a meeting held on 21 April 2005, the directors proposed a final dividend of HK$0.009 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

11 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the GZI Group's profit attributable to shareholders of HK$330,823,000 (2003: HK$300,653,000).

The basic earnings per share is based on the weighted average number of 6,318,186,352 (2003: 6,146,494,166) ordinary shares in issue during the year. The diluted earnings per share is based on 6,424,401,643 (2003: 6,223,195,777) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 106,215,291 (2003: 76,701,611) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004	2003
	HK$'000	*HK$'000*
Wages and salaries	221,989	198,757
Pension costs (defined contribution plans)	38,528	22,585
Medical benefits costs (defined contribution plans)	5,492	4,561
Social security costs	15,674	14,405
Termination benefits	1,554	763
Staff welfare	16,405	18,315
	299,642	259,386

Pension scheme arrangements

The GZI Group operates a pension scheme for Hong Kong employees. The scheme is a defined contribution scheme and is administered by independent trustees. In relation to each employee, the employee contributes 5 per cent and the GZI Group contributes 5 per cent to 15 per cent of the employee's basic salary to the scheme. There were no significant forfeited contributions in respect of employees who left the scheme prior to vesting fully in the contributions during the year and as at 31 December 2004 (2003: Nil).

The GZI Group participates in the Mandatory Provident Fund Scheme ("MPF" Scheme) for Hong Kong employees. The GZI Group's MPF Scheme contributions are at 5 per cent of the employee's relevant income as defined in the Hong Kong Mandatory Provident Fund Schemes Ordinance up to a maximum of HK$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK$5,000 per month. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid.

Subsidiaries of the Company in China are required to participate in a defined contribution retirement plan organised by the Guangzhou Municipal People's Government. All Chinese workers are entitled to a pension equal to a fixed proportion of their ending basic salary amount at their retirement date except for a substantial number of staff members of five subsidiaries in China who are employed by Guangzhou Highways Development Company ("GHDC"), the local partner, pursuant to highways management agreements (the "Management Agreements") executed between these subsidiaries and GHDC. Pursuant to the Management Agreements, details of which are disclosed in note 39(b) to the accounts, GHDC assumes full responsibility for the salaries and all statutory benefits, insurance and welfare funds required to be paid pursuant to relevant laws and regulations of China to the staff members and workers employed by GHDC to perform their duties required under the Management Agreements. The other subsidiaries are required to make contributions to the retirement plan at the rates of 16 per cent to 24 per cent of the basic salaries of their staff members.

The GZI Group's contribution is charged to its profit and loss account and expenses incurred by the GZI Group for the year amounted to HK$38,528,000 (2003: HK$21,363,000).

13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The aggregate amounts of emoluments paid or payable to the Directors of the Company are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Fees *(note (i))*	86	76
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	5,767	8,004
Discretionary bonuses	10,772	7,434
Directors' pension	109	162
	16,734	15,676

Note:

(i) Directors' fees represent amounts paid to independent non-executive Directors.

(b) The emoluments of the Directors fell within the following bands:

Emoluments bands	Number of directors 2004	2003
Nil - HK$1,000,000	5[1]	12[1]
HK$1,000,001 - HK$1,500,000	1	2
HK$1,500,001 - HK$2,000,000	2	2
HK$2,000,001 - HK$2,500,000	1	3
HK$2,500,001 - HK$3,000,000	1	—
HK$3,000,001 - HK$3,500,000	1	—
HK$3,500,001 - HK$4,000,000	1	—
	12	19

[1] Included three (2003: two) independent non-executive Directors.

No Directors waived emoluments in respect of the years ended 31 December 2004 and 2003. No emoluments were paid or payable by the GZI Group as an inducement to join or upon joining the GZI Group, or as compensation for loss of office during the years ended 31 December 2004 and 2003.

(c) The five individuals whose emoluments were the highest in the GZI Group for the year ended 31 December 2004 are also directors whose emoluments are reflected in the analysis presented above.

14 INTERESTS IN TOLL HIGHWAYS AND BRIDGES

	Group		
	Intangible operating rights *HK$'000*	Tangible infrastructure *HK$'000*	Total *HK$'000*
At 1 January 2004	1,750,864	348,783	2,099,647
Additions	3,121	—	3,121
Amortisation/depreciation charge	(88,945)	(12,447)	(101,392)
At 31 December 2004	1,665,040	336,336	2,001,376
At 31 December 2004			
Cost	2,146,227	403,755	2,549,982
Accumulated amortisation/depreciation	(481,187)	(67,419)	(548,606)
Net book value	1,665,040	336,336	2,001,376
At 31 December 2003			
Cost	2,143,106	403,755	2,546,861
Accumulated amortisation/depreciation	(392,242)	(54,972)	(447,214)
Net book value	1,750,864	348,783	2,099,647

The intangible operating rights and tangible infrastructure are located in China.

15 OTHER INTANGIBLE ASSETS

	Group		
	Goodwill	**Negative goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	40,453	(575,706)	(535,253)
Amortisation charge	(3,674)	48,967	45,293
At 31 December 2004	36,779	(526,739)	(489,960)
At 31 December 2004			
Cost	51,310	(629,602)	(578,292)
Accumulated amortisation	(14,531)	102,863	88,332
	36,779	(526,739)	(489,960)
At 31 December 2003			
Cost	51,310	(629,602)	(578,292)
Accumulated amortisation	(10,857)	53,896	43,039
	40,453	(575,706)	(535,253)

16 FIXED ASSETS

(a) Group

	Investment properties	Other properties	Production facilities under construction	Plant and machinery and tools	Leasehold improvements, furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1 January 2004	4,845,537	366,760	259,378	1,247,023	211,432	72,030	7,002,160
Additions	122,978	985	66,340	1,706	7,322	3,007	202,338
Transfer (to)/from properties held for/under development	(164,825)	46,260	—	—	—	—	(118,565)
Revaluation surplus	76,750	—	—	—	—	—	76,750
Transfer	(76,729)	73,904	—	—	—	—	(2,825)
Transfer upon completion	—	13,447	(237,413)	187,740	36,226	—	—
Disposals	(28,406)	(35,440)	—	(22,028)	(7,017)	(4,933)	(97,824)
At 31 December 2004	4,775,305	465,916	88,305	1,414,441	247,963	70,104	7,062,034
Accumulated deprecation							
As 1 January 2004	—	106,198	—	470,436	128,822	45,622	751,078
Charge for the year	—	15,809	—	106,773	19,987	5,998	148,567
Transfer	—	(2,825)	—	—	—	—	(2,825)
Disposals	—	(20,585)	—	(25,549)	(1,941)	(3,341)	(51,416)
At 31 December 2004	—	98,597	—	551,660	146,868	48,279	845,404
Net book value							
At 31 December 2004	4,775,305	367,319	88,305	862,781	101,095	21,825	6,216,630
At 31 December 2003	4,845,537	260,562	259,378	776,587	82,610	26,408	6,251,082

(b) Company

	Investment properties HK$'000	Other properties HK$'000	Leasehold improvements, furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1 January 2004	9,375	14,338	9,234	4,465	37,412
Additions	—	—	765	—	765
Revaluation surplus	2,200	—	—	—	2,200
Transfer	(1,275)	1,275	—	—	—
At 31 December 2004	10,300	15,613	9,999	4,465	40,377
Accumulated depreciation					
At 1 January 2004	—	4,630	8,149	4,059	16,838
Charge for the year	—	361	469	146	976
At 31 December 2004	—	4,991	8,618	4,205	17,814
Net book value					
At 31 December 2004	10,300	10,622	1,381	260	22,563
At 31 December 2003	9,375	9,708	1,085	406	20,574

(c) The GZI Group's and the Company's interests in investment properties and other properties at their net book values are analysed as follows:

	Group		Company	
	2004 HK$'000	2003 HK$'000	2004 HK$'000	2003 HK$'000
In Hong Kong, held on:				
Leases of between 10 to 50 years	724,500	720,000	—	—
Leases of over 50 years	131,850	156,416	20,747	18,900
Outside Hong Kong*, held on:				
Leases of between 10 to 50 years	25,524	183	175	183
Leases of over 50 years	4,260,750	4,229,500	—	—
	5,142,624	5,106,099	20,922	19,083

* Properties outside Hong Kong mainly comprise properties located in China.

(d) Investment properties of the GZI Group and the Company were revalued at 31 December 2004 on the basis of their open market value as determined by independent firm of professional surveyor, Greater China Appraisal Limited, employed by the GZI Group. Other fixed assets of the GZI Group and the Company are stated at cost less accumulated depreciation.

(e) As at 31 December 2004, the net book values of fixed assets held under finance leases by the GZI Group and the Company amounted to HK$83,000 (2003: HK$46,000).

17 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	**2003**
	HK$'000	*HK$'000*
Investments in unlisted shares, at cost	29,332	36,587
Amounts due from subsidiaries *(note (a))*	9,928,354	9,814,643
	9,957,686	9,851,230
Amounts due to subsidiaries *(note (b))*	(377,464)	(354,938)

(a) The amounts due from subsidiaries are unsecured and have no fixed terms of repayments. Except for the amounts of approximately HK$7,405,982,000 (2003: approximately HK$7,353,575,000) which are interest-free, all amounts due from subsidiaries are interest bearing at 2.5 to 5.5 per cent per annum.

(b) The amounts due to subsidiaries are unsecured and have no fixed terms of repayments. Except for the amounts of approximately HK$31,464,000 (2003: approximately HK$31,445,000) which are interest-free, all amounts due to subsidiaries are interest bearing at Hong Kong Interbank Offered Rate (HIBOR) plus 0.6 per cent to HIBOR plus 1.25 per cent per annum.

(c) None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2004 (2003: Nil).

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Share of net assets	470,976	384,439
Goodwill on acquisition of a jointly controlled entity less accumulated amortisation	20,077	20,265
	491,053	404,704
Amounts due from jointly controlled entities *(note (a))*	188,843	411,825
Less: provision for amount due from jointly controlled entities	(33,179)	(18,465)
	155,664	393,360
	646,717	798,064
Amounts due to jointly controlled entities *(note (a))*	(123,442)	(75,340)

(a) The amounts due from/(to) jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

(b) As at 31 December 2004, Guangzhou Western Second Ring Expressway Co Ltd of which 35% interest is held by the GZI Transport Ltd, a subsidiary of the GZI Group, had a capital commitment of HK$2,528,000,000.

19 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Share of net assets	747,987	651,060
Goodwill on acquisition of associated companies less accumulated amortisation	158,083	164,670
	906,070	815,730
Loans receivable from associated companies *(note (a))*	787,421	872,606
Amounts due from associated companies *(note (b))*	86,765	84,681
Less: provision for amount due from an associated company	(19,908)	(19,908)
	854,278	937,379
	1,760,348	1,753,109
Amounts due to associated companies *(note (b))*	(112,150)	(112,221)

(a) Except for loans in aggregate amount of HK$568,414,000 (2003: HK$653,816,000) which bear interest at prevailing Hong Kong dollars prime rates ranging of 5 to 5.125 per cent per annum; US dollars prime rates ranging from 4 to 5.25 per cent per annum and lending rates of financial institutions in China ranging from 5.31 to 6.12 per cent per annum, the remaining balance are unsecured, interest-free and have no fixed terms of repayment.

(b) Amounts due from/(to) associated companies are unsecured, interest-free and have no fixed terms of repayment.

20 OTHER INVESTMENTS

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Other investments, at cost	317,555	316,059
Less: Accumulated impairment losses	(56,208)	(56,208)
	261,347	259,851

Other investments mainly represent the GZI Group's investments in co-operative joint ventures established in China for the development and management of highways and the development of properties.

21 PROPERTIES HELD FOR/UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

Properties held for development include certain land parcels pending development. The amount of properties held for/under development and properties held for sale of the GZI Group carried at net realisable value is approximately HK$2,130,000,000 (2003: approximately HK$2,575,000,000).

22 INVENTORIES

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Raw materials	103,982	59,113
Work-in-progress	78,335	113,327
Finished goods	12,971	47,687
	195,288	220,127

All inventories were stated at cost as at 31 December 2004 and 2003.

23 AMOUNTS DUE FROM RELATED COMPANIES AND AMOUNTS DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

(a) Amounts due from related companies and amounts due to minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(b) Details of the amounts due from related companies are:

	Group		Maximum balance outstanding
	2004	**2003**	**during the year**
	HK$'000	*HK$'000*	*HK$'000*
Due from related companies			
Amounts due from related companies, which are beneficially owned by the ultimate holding company of the Company	3,234	3,678	3,766

24 TRADE RECEIVABLES

The GZI Group has defined credit policies for different business. The credit terms of the GZI Group are generally within three months. The ageing analysis of the trade receivables is as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
0 - 30 days	174,569	213,938
31 - 90 days	76,788	249,337
91 - 180 days	81,345	48,372
181 - 365 days	43,789	89,711
Over 1 year	186,277	65,736
	562,768	667,094

25 BANK AND CASH BALANCES

Included in the bank and cash balances of the GZI Group and the Company are deposits of approximately HK$757,369,000 (2003: HK$803,021,000) and HK$59,000 (2003: HK$4,026,000), respectively, denominated in Renminbi and placed with banks in China. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the China government.

As at 31 December 2004, the GZI Group's bank deposits of HK$70,747,000 (2003: HK$56,143,000) were restricted in use pursuant to the regulations in relation to the pre-sales of properties in China.

26 TRADE PAYABLES

Trade payables include trade balances with creditors and retention money payable on construction contracts.

The ageing analysis of the trade payables were as follows:

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
0 - 30 days	32,433	75,453
31 - 90 days	70,560	16,247
91 - 180 days	24,008	40,828
181 - 365 days	65,755	62,674
1 - 2 year	39,243	203,040
Over 2 years	182,494	49,358
	414,493	447,600

27 SHARE CAPITAL

	Number of shares	
	'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	10,000,000	1,000,000
Issued and fully paid:		
At 1 January 2003	6,118,102	611,810
Issue of shares for acquisition of subsidiaries	31,386	3,139
Issue of shares upon exercise of share options	99,230	9,923
At 31 December 2003	6,248,718	624,872
At 1 January 2004	6,248,718	624,872
Issue of shares upon exercise of share options *(note a)*	102,880	10,288
At 31 December 2004	6,351,598	635,160

Note:

(a) During the year, 102,880,000 ordinary shares of HK$0.1 each were issued upon the exercise of share options (see note 28).

28 SHARE OPTIONS

On 26 June 2002, the Company has adopted a new share option scheme, under which it may grant options to employees (including directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10 per cent of the number of shares in issue as at 26 June 2002. The exercise price will be determined by the Company's Board of Directors and shall at least be the highest of (i) the closing price of the Company's shares on the date of grant of the options, (ii) an average closing price of the Company's shares for the five business days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company's shares.

As at 31 December 2004, there were outstanding options granted under an old share option scheme to subscribe for an aggregate of 9,626,000 shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Particulars and movements of share options during the year are as follows:

			Number of share options				
Date of grant	**Exercise period**	**Exercise price**	**as at 1 January 2004**	**granted**	**exercised**	**lapsed**	**as at 31 December 2004**
		HK$	*'000*	*'000*	*'000*	*'000*	*'000*
Old share option scheme							
4 September 1998	4 September 1998 - 3 September 2004	0.3936	52,000	—	(46,600)	(5,400)	—
14 December 1999	14 December 1999 - 13 December 2005	0.5008	14,174	—	(4,548)	—	9,626
New share option scheme							
2 May 2003	2 May 2003 - 1 May 2013	0.4100	152,150	—	(42,970)	—	109,180
2 June 2003	2 June 2003 - 1 June 2013	0.5400	61,950	—	(1,800)	—	60,150
27 October 2003	27 October 2003 - 26 October 2013	0.8140	12,620	—	(216)	—	12,404
23 December 2003	23 December 2003 - 22 December 2013	0.8460	100,632	—	(170)	(228)	100,234
23 June 2004	23 June 2004 - 22 June 2014	0.6300	—	320,310	(6,576)	(1,320)	312,414
			393,526	320,310	(102,880)	(6,948)	604,008

29 RESERVES

(a) Group

	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Statutory reserves *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2003	5,649,409	1,815	49,841	(80,183)	477,355	6,098,237
Net proceeds from issue of ordinary shares	57,969	—	—	—	—	57,969
Exchange differences	—	—	—	3,748	—	3,748
Release of reserve upon disposal of properties held for/under development and properties held for sale	—	—	—	—	(66,070)	(66,070)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(273)	(274)	—	(547)
Transfer	—	—	13,038	—	(13,038)	—
Profit attributable to shareholders	—	—	—	—	300,653	300,653
Dividends paid	—	—	—	—	(49,502)	(49,502)
At 31 December 2003	5,707,378	1,815	62,606	(76,709)	649,398	6,344,488
At 1 January 2004	5,707,378	1,815	62,606	(76,709)	649,398	6,344,488
Net proceeds from issue of ordinary shares	33,355	—	—	—	—	33,355
Exchange differences	—	—	—	(1,588)	—	(1,588)
Release of reserve upon disposal of properties held for/under development and properties held for sale	—	—	—	—	(30,675)	(30,675)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(1)	(2)	—	(3)
Provision for impairment of goodwill	—	—	—	—	43,533	43,533
Transfer	—	—	16,792	—	(16,792)	—
Profit attributable to shareholders	—	—	—	—	330,823	330,823
Dividends paid	—	—	—	—	(120,792)	(120,792)
At 31 December 2004	5,740,733	1,815	79,397	(78,299)	855,495	6,599,141
Representing:						
2004 Final dividend proposed					57,266	
Others					798,229	
Retained profits as at 31 December 2004					855,495	

(b) Company

	Share premium	Capital redemption reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	5,649,409	1,815	313,225	5,964,449
Net proceeds from issue of ordinary shares	57,969	—	—	57,969
Profit for the year	—	—	62,170	62,170
Dividends paid	—	—	(49,502)	(49,502)
At 31 December 2003	5,707,378	1,815	325,893	6,035,086
At 1 January 2004	5,707,378	1,815	325,893	6,035,086
Net proceeds from issue of ordinary shares	33,355	—	—	33,355
Profit for the year	—	—	100,356	100,356
Dividends paid	—	—	(120,792)	(120,792)
At 31 December 2004	5,740,733	1,815	305,457	6,048,005
Representing:				
2004 Final dividend proposed			57,266	
Others			248,191	
Retained profits as at 31 December 2004			305,457	

(c) Included in the GZI Group's retained profits are retained profits amounting to HK$801,941,000 (2003: HK$613,138,000) and accumulated losses of HK$294,922,000 (2003: HK$265,856,000) which are attributable to associated companies and jointly controlled entities, respectively.

(d) Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries and associated companies in China. As stipulated by regulations in China, the Company's subsidiaries and associated companies established and operated in China are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve fund may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the GZI Group's statutory reserves is HK$538,000 (2003: HK$538,000) attributable to associated companies.

30 LONG-TERM BANK LOANS

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans				
Secured *(note 38)*	3,372,134	3,848,194	2,204,233	2,454,683
Unsecured	735,030	669,650	117,000	117,000
	4,107,164	4,517,844	2,321,233	2,571,683
Current portion of long-term bank loans	(959,499)	(875,394)	(513,935)	(367,452)
	3,147,665	3,642,450	1,807,298	2,204,231

At 31 December 2004, the long-term bank loans were repayable as follows:

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	959,499	875,394	513,935	367,452
In the second year	1,324,388	878,627	367,258	396,934
In the third to fifth year	1,823,277	2,763,823	1,440,040	1,807,297
	4,107,164	4,517,844	2,321,233	2,571,683

31 OTHER LONG-TERM LOANS

Other long-term loans are repayable over the following periods:

(a) Group

	2003					
	Obligations under finance leases	**Loans from the ultimate holding company**	**Loans from related companies**	**Loans from minority shareholders of subsidiaries**	**Other loans**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	14	—	—	—	—	14
In the second year	29	—	—	—	—	29
In the third to fifth year	—	220,595	79,008	—	—	299,603
With no fixed repayment terms	—	10,066	65,809	561,420	15,600	652,895
	43	230,661	144,817	561,420	15,600	952,541
Less: Current portion of other long-term loans	(14)	—	—	—	—	(14)
	29	230,661	144,817	561,420	15,600	952,527
The balances are analysed as follows:						
Interest bearing	43	220,595	83,504	120,561	—	424,703
Non-interest bearing	—	10,066	61,313	440,859	15,600	527,838
	43	230,661	144,817	561,420	15,600	952,541

	2004				
	Obligations under finance leases	**Loans from the ultimate holding company**	**Loans from related companies**	**Loans from minority shareholders of subsidiaries**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	25	—	—	—	25
In the second year	25	—	—	—	25
In the third to fifth year	28	267,459	—	—	267,487
With no fixed repayment terms	—	31,431	127,917	463,887	623,235
	78	298,890	127,917	463,887	890,772
Less: Current portion of other long-term loans	(25)	—	—	—	(25)
	53	298,890	127,917	463,887	890,747
The balances are analysed as follows:					
Interest bearing	—	267,459	84,535	120,561	472,555
Non-interest bearing	78	31,431	43,382	343,326	418,217
	78	298,890	127,917	463,887	890,772

Except for an aggregate amount of HK$120,561,000 (2003: HK$120,561,000) which bears interest at the prevailing lending rates of financial institutions in China ranging from 5.76 to 6.12 per cent per annum, the interest bearing balances bear interest at HIBOR plus 1 per cent per annum.

(b) Company

	2004				2003			
	Obligations under finance lease	**Loans from a ultimate holding company**	**Loan from a related company**	**Total**	**Obligations under finance lease**	**Loans from a ultimate holding company**	**Loan from a related company**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	25	—	—	25	14	—	—	14
In the second year	25	—	—	25	29	—	—	29
In the third to fifth year	28	361,907	84,535	446,470	—	252,906	83,504	336,410
With no fixed repayment terms	—	61,180	1,673	62,853	—	7,944	1,467	9,411
	78	423,087	86,208	509,373	43	260,850	84,971	345,864
Less: Current portion of other long-term loans	(25)	—	—	(25)	(14)	—	—	(14)
	53	423,087	86,208	509,348	29	260,850	84,971	345,850
The balances are analysed as follows:								
Interest bearing	—	361,907	84,535	446,442	43	252,906	83,504	336,453
Non-interest bearing	78	61,180	1,673	62,931	—	7,944	1,467	9,411
	78	423,087	86,208	509,373	43	260,850	84,971	345,864

The interest bearing balances bear interest at HIBOR plus 1 per cent per annum.

32 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using the applicable income tax rate.

The movement on the deferred tax liabilities/(assets) account is as follows:

	2004	2003
	HK$'000	*HK$'000*
At 1 January	3,611,475	3,684,171
Deferred taxation credited to profit and loss account *(note 8)*	(31,852)	(31,968)
Taxation credited to equity	(5,543)	(40,728)
At 31 December	3,574,080	3,611,475

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets:

	Group				
	Different bases in reporting expenses with tax authorities	**Revaluation of properties**	**Tax loss**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	9,725	16,800	3,065	4,254	33,844
Credited/(charged) to profit and loss account	793	(1,645)	822	10,966	10,936
At 31 December 2003	10,518	15,155	3,887	15,220	44,780
At 1 January 2004	10,518	15,155	3,887	15,220	44,780
Credited to profit and loss account	11,230	—	5,536	685	17,451
At 31 December 2004	21,748	15,155	9,423	15,905	62,231

Deferred tax liabilities:

	Group				
	Revaluation of properties	**Different bases in reporting revenue and expenses with tax authorities**	**Accelerated depreciation**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	3,604,233	76,576	24,810	12,396	3,718,015
Charged/(credited) to profit and loss account	(97,757)	84,984	(16,319)	8,060	(21,032)
Credited to retained profits	(40,728)	—	—	—	(40,728)
At 31 December 2003	3,465,748	161,560	8,491	20,456	3,656,255
At 1 January 2004	3,465,748	161,560	8,491	20,456	3,656,255
Charged/(credited) to profit and loss account	(81,366)	71,603	(218)	(4,420)	(14,401)
Credited to retained profits	(5,543)	—	—	—	(5,543)
At 31 December 2004	3,378,839	233,163	8,273	16,036	3,636,311

Deferred income tax assets are recognised for tax loss carry forwards and the revaluation of properties to the extent that realisation of the related tax benefit through the future taxation profits is probable. As at 31 December 2004, the GZI Group has unrecognised tax losses of HK$967 million (2003: HK$752 million) for Hong Kong profits tax purposes with no expiry date and unrecognised tax benefits arising from revaluation of properties of HK$251 million (2003: HK$459 million).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004	**2003**
	HK$'000	*HK$'000*
Deferred tax assets		
- Hong Kong profits tax	10,054	12,712
- China enterprise income tax	46,145	26,349
	56,199	39,061
Deferred tax liabilities		
- Hong Kong profits tax	15,648	19,449
- China enterprise income tax	1,576,982	1,506,745
- China land appreciation tax	2,037,649	2,124,342
	3,630,279	3,650,536

33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash inflow generated from operations:

	2004	**2003**
	HK$'000	*HK$'000*
Profit from operations	743,486	721,591
Depreciation and amortisation	211,441	184,280
Loss on disposal/deemed disposal of certain interests in a subsidiary	481	95,940
Loss on disposal of fixed assets	6,436	27,628
Loss on disposal of other investments	—	1,059
Interest income	(5,587)	(8,450)
Dividend income	(14,904)	(3,483)
Revaluation surplus on investment properties	(76,750)	(165,840)
(Write-back)/write-down of properties held for/under development to net realisable value	(44,546)	5,805
Operating profit before working capital changes	820,057	858,530
Net decrease in properties held for/under development and properties held for sale	857,212	982,306
Decrease/(increase) in inventories	24,839	(28,438)
Increase in trade receivables, other receivables, prepayments and deposits including amounts due from related companies	(63,133)	(71,033)
Decrease in trade payables, other payables and accrued charges	(206,700)	(749,618)
Net cash inflow generated from operations	1,432,275	991,747

(b) Deemed acquisition/purchase of subsidiaries

	2004	2003
	HK$'000	*HK$'000*
Net assets acquired		
Fixed assets	—	17,685
Other investments	—	1,402
Interest in jointly controlled entity	(24,242)	—
Amount due from a jointly controlled entity	(350,628)	—
Properties held for/under development	471,115	—
Inventories	—	21,938
Other receivables, prepayments and deposits	10,966	18,587
Bank balances and cash	2,339	16,683
Trade payables, other payables and accrued charges	(81,728)	(15,330)
Minority interests *(note 33(d))*	(27,822)	(617)
Bank loans	—	(28,037)
	—	32,311
Negative goodwill arising from the acquisition	—	(5,005)
Total cost of acquisition	—	27,306
Satisfied by:		
Issue of shares	—	27,306
Total cost of acquisition	—	27,306

In connection with the changes of terms on the joint venture agreement, a jointly controlled entity became a subsidiary of the GZI Group. As there was no change in the shareholding interest attributable to the GZI Group, the GZI Group did not pay any consideration for the deemed acquisition.

The subsidiaries acquired during the year contributed HK$36 million cash outflow from operating activities (2003: outflow of HK$3 million), nil from investing activities (2003: outflow of HK$1 million) and HK$37 million inflow from financing activities (2003: nil).

Analysis of net inflow of cash and cash equivalents in respect of the deemed acquisition/purchase of subsidiaries

	2004	2003
	HK$'000	*HK$'000*
Cash consideration	—	—
Bank balances and cash acquired	2,339	16,683
Net inflow of cash and cash equivalents in respect of the deemed acquisition/purchase of subsidiaries	2,339	16,683

(c) Disposal of certain interests in subsidiaries

	2004 HK$'000	2003 HK$'000
Net asset value of the GZI Group's interests disposed of	—	18,494
Negative goodwill released upon disposal	—	(8,857)
Loss on disposal	—	(998)
Net inflow of cash and cash equivalents in respect of the disposal of certain interests in subsidiaries	—	8,639

(d) Analysis of changes in financing

	Share capital (including share premium) HK$'000	Convertible bonds HK$'000	Bank loans HK$'000	Amounts due to associated companies and jointly controlled entities HK$'000	Amounts due to minority shareholders of subsidiaries and other long-term loans HK$'000	Minority interests HK$'000
At 1 January 2003	6,261,219	200,623	6,763,073	185,162	764,922	3,403,865
Issue of ordinary shares for purchase of subsidiaries	27,306	—	—	—	—	—
Issue of ordinary shares for cash	43,725	—	—	—	—	—
Redemption of convertible bonds	—	(200,623)	—	—	200,623	—
Premium on redemption of convertible bonds	—	—	—	—	1,950	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	6,037
Increase in shareholdings of subsidiaries	—	—	—	—	—	(244,177)
Acquisition of subsidiaries	—	—	28,037	—	—	617
Decrease in shareholdings of a subsidiary	—	—	—	—	—	18,494
Minority interest share of profits	—	—	—	—	—	213,680
Deemed disposal of certain interests in a subsidiary	—	—	—	—	—	152,307
Minority interest share of exchange reserve	—	—	—	—	—	668
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	(129,377)
Transfer from minority interests	—	—	—	—	344	(344)
New borrowings	—	—	2,252,575	2,399	183,093	—
Repayments	—	—	(3,005,352)	—	(19,356)	(46,948)
At 31 December 2003	6,332,250	—	6,038,333	187,561	1,131,576	3,374,822

	Share capital (including share premium)	Bank loans	Amounts due to associated companies and jointly controlled entities	Amounts due to minority shareholders of subsidiaries and other long-term loans	Minority interests
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	6,332,250	6,038,333	187,561	1,131,576	3,374,822
Issue of ordinary shares for cash	43,643	—	—	—	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	4,476
Minority interest share of profits	—	—	—	—	280,947
Deemed acquisition of a subsidiary *(note 33(b))*	—	—	—	—	27,822
Deemed disposal of certain interests of a subsidiary	—	—	—	—	799
Minority interest share of exchange reserve	—	—	—	—	(2,066)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	(218,993)
New borrowings	—	932,996	48,031	177,745	—
Repayments	—	(1,801,602)	—	(231,818)	—
At 31 December 2004	6,375,893	5,169,727	235,592	1,077,503	3,467,807

34 COMMITMENTS UNDER OPERATING LEASES

The GZI Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings (mainly arising from the related party transactions referred to in note 39(a)) as follows:

	2004	2003
	HK$'000	*HK$'000*
Not later than one year	26,380	31,591
Later than one year and not later than five years	97,388	85,560
Later than five years	215,354	254,977
	339,122	372,128

The Company did not have any commitment under operating leases at 31 December 2004 (2003: Nil).

35 FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

At 31 December 2004, the GZI Group and the Company had future minimum rental payments receivable under non-cancellable leases as follows:

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	296,187	331,295	70	28
Later than one year and not later than five years	495,792	527,200	—	—
Later than five years	12,803	129,839	—	—
	804,782	988,334	70	28

36 OTHER COMMITMENTS

	Group	
	2004	**2003**
	HK$'000	*HK$'000*
Capital commitments in respect of fixed assets:		
Contracted but not provided for	14,359	16,755
Authorised but not contracted for	—	—
	14,359	16,755

At 31 December 2004, the GZI Group had financial commitments in respect of equity capital to be injected to a jointly controlled entity of approximately HK$247,990,000 (2003: Nil).

37 CONTINGENT LIABILITIES

	Group		Company	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(a) Guarantees for mortgage facilities granted to certain buyers of the GZI Group's properties *(note)*	250,520	117,052	—	—
(b) Guarantees for banking and loan facilities granted to subsidiaries	—	—	390,215	694,915
	250,520	117,052	390,215	694,915

(c) At 31 December 2004 and 2003, the GZI Group has pledged its income to be derived from its 24.3 per cent effective interest in an associated company to a bank in favour of a joint venture partner in this associated company (the "Joint Venture Partner"), in respect of the repayment of a bank loan by the Joint Venture Partner amounting to Rmb500 million (approximately HK$467 million) and interest thereon (collectively referred to as "Relevant Loan").

A counter-indemnity has been provided by the Joint Venture Partner to the GZI Group against all liabilities arising from such pledge. In addition, Yue Xiu has issued an indemnity to the GZI Group under which any shortfall between the counter indemnity give by the Joint Venture Partner and the Relevant Loan to the bank will be satisfied/paid by Yue Xiu if the counter-indemnity given by the Joint Venture Partner to the GZI Group is insufficient to cover the Relevant Loan.

Note: The GZI Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon issuance of the real estate ownership certificate.

38 PLEDGE OF ASSETS

At 31 December 2004, certain banking facilities and loans granted to the GZI Group and the Company were secured by the following:

(a) certain of the GZI Group's properties held for/under development, properties held for sale and investment properties with an aggregate carrying value of HK$514 million (2003: HK$665 million), HK$291 million (2003: HK$246 million and HK$3,230 million (2003: HK$3,573 million) respectively;

(b) floating charge over certain assets of certain subsidiaries with aggregate net book value (excluding intercompany loans) of HK$4,086 million (2003: HK$3,849 million);

(c) mortgages of the GZI Group's shareholdings in certain subsidiaries; and

(d) charge over certain intercompany loans with an aggregate amount of HK$3,648 million (2003: HK$3,573 million).

39 RELATED PARTY TRANSACTIONS

Significant related party transactions entered into in the normal course of the GZI Group's business are as follows:

	2004	**2003**
	HK$'000	*HK$'000*
Rental and utility expenses paid to a minority shareholder of a subsidiary *(note (a))*	260,384	186,303
Toll highways management fee paid and payable to a minority shareholder of subsidiaries *(note (b))*	62,235	62,223
Rental expenses and property management fee paid to the ultimate holding company *(note (c))*	1,025	1,056
Interest expenses paid to a minority shareholder of a subsidiary *(note (d))*	4,643	—

Notes:

(a) On 17 October 2002, the GZI Group entered into a lease contract and a utilities supply contract with Guangzhou Paper Holdings Limited whereby Guangzhou Paper Holdings Limited agreed to lease certain fixed assets to the GZI Group for 20 years at a monthly rental of RMB1,446,000 (equivalent to approximately HK$1,364,000) and to supply electricity, water and steam to the GZI Group for 20 years at certain pre-determined rates. The shareholders of the Company approved these transactions in an extraordinary general meeting held on 25 November 2002.

(b) On 6 September 2004, management agreements in respect of toll road management fee were entered into between Guangzhou Highways Development Company ("GHDC"), a minority shareholder of subsidiaries, and certain subsidiaries engaging in the operation of toll highways in China, whereby GHDC carries out the day-to-day routine operational and maintenance services of the Guangshan Highway, Guangshen Highway, Guangcong Highway Section I and II, Provincial Highway 1909 and Guanghua Highway respectively including the collection of toll charges and repairs and maintenance in return for a fixed sum to be predetermined annually. Particulars of these management agreements have been published in a joint announcement dated 6 September 2004 issued by the Company and GZI Transport Limited.

(c) Property management fee charged at HK$51,000 for the year and rental expenses charged at HK$88,000 per month from January to October and HK$47,000 per month from November to December (2003: HK$88,000 per month) were paid to Yue Xiu Enterprises (Holdings) Limited, the ultimate holding company.

(d) Advance from Guangzhou Paper Holdings Limited, a minority shareholder of a subsidiary, bore interest at 5.31 per cent per annum during the year.

6. UNAUDITED FINANCIAL INFORMATION OF THE GZI GROUP

The following is the unaudited condensed financial statements of the GZI Group for the six months ended 30 June 2005 together with the relevant notes as extracted from the interim report of the Company for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005

	Note	**Unaudited Six months ended 30 June 2005**	**2004 Restated**
		HK$'000	*HK$'000*
Turnover	6	1,588,191	2,274,010
Cost of sales	7	(1,237,618)	(1,734,213)
Gross profit		350,573	539,797
Other revenues		6,839	9,795
Selling and distribution expenses	7	(55,125)	(63,168)
General and administrative expenses	7	(279,046)	(202,539)
Revaluation surplus on investment properties		662,539	—
Profit from operations		685,780	283,885
Finance costs		(114,092)	(75,463)
Share of profits less losses of			
Jointly controlled entities		14,534	252
Associated companies		103,008	91,343
Profit before taxation		689,230	300,017
Taxation	8	(327,893)	(58,057)
Profit for the period		361,337	241,960
Attributable to			
Equity holders of the Company		132,434	111,506
Minority interests		228,903	130,454
		361,337	241,960
Earnings per share for profit attributable to the equity holders of the Company during the period	9		
— Basic		HK2.08 cents	HK1.77 cents
— Diluted		HK2.05 cents	HK1.73 cents
Interim dividend	10	64,028	52,531

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005 and 31 December 2004

	Note	**As at 30 June 2005** Unaudited *HK$'000*	**31 December 2004** Restated *HK$'000*
ASSETS			
Non-current assets			
Interests in toll highways and bridges	11	1,951,634	2,001,376
Other intangible assets	11	45,365	(489,960)
Fixed assets	11	1,375,794	1,351,358
Investment properties	11	5,458,801	4,775,305
Leasehold land and land use rights	11	3,124,223	3,291,022
Interests in jointly controlled entities		739,254	643,437
Interests in associated companies		1,775,477	1,760,348
Deferred tax assets	20	56,538	56,199
Other receivables-non current portion		104,900	104,900
Available-for-sale financial assets	12	387,380	—
Other investments		—	261,347
		15,019,366	13,755,332
Current assets			
Properties held for/under development		4,090,234	3,567,636
Properties held for sale		1,079,953	1,235,566
Leasehold land and land use rights	11	3,738,029	3,766,295
Inventories		208,816	195,288
Amount due from related companies		1,219	3,234
Trade receivables	13	427,637	457,868
Other receivables, prepayments and deposits		469,692	593,644
Charged bank deposits		91,586	70,747
Bank balances and cash		1,178,174	830,910
		11,285,340	10,721,188

	Note	As at 30 June 2005 Unaudited *HK$'000*	As at 31 December 2004 Restated *HK$'000*
LIABILITIES			
Current liabilities			
Trade payables	14	358,974	414,493
Land premium payables		785,685	729,410
Other payables and accrued charges		3,657,210	3,054,229
Amounts due to jointly controlled entities		120,661	123,442
Amounts due to associated companies		112,150	112,150
Amounts due to minority shareholders		149,092	186,831
Borrowings	15	1,607,449	2,046,850
Derivative financial instruments	16	33,228	29,021
Taxation payable		96,479	133,798
		6,920,928	6,830,224
Net current assets		4,364,412	3,890,964
Total assets less current liabilities		19,383,778	17,646,296
Non-current liabilities			
Borrowings	15	4,590,722	4,038,412
Deferred tax liabilities	20	3,469,419	3,159,380
		8,060,141	7,197,792
Net assets		11,323,637	10,448,504
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	637,913	635,160
Other reserves	19	5,918,499	5,770,281
Retained earnings	19		
— Proposed dividend		64,028	57,266
— Others		1,118,357	527,661
		7,738,797	6,990,368
Minority interests		3,584,840	3,458,136
Total equity		11,323,637	10,448,504

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Unaudited Six months ended 30 June	
	2005	**2004**
		Restated
	HK$000	*HK$000*
Net cash inflow generated from operating activities	546,185	743,708
Net cash outflow from investing activities	(167,292)	(128,625)
Net cash outflow from financing activities	(15,799)	(684,277)
Increase/(decrease) in cash and cash equivalents	363,094	(69,194)
Cash and cash equivalents at 1 January	806,147	1,035,808
Cash and cash equivalents at 30 June	1,169,241	966,614
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	1,178,174	991,992
Bank overdrafts	(8,933)	(25,378)
	1,169,241	966,614

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

		Unaudited			
		Attributable to equity holders of the Company			
	Note	Share capital	Reserves	Minority interest	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005, as previously reported as equity		635,160	6,599,141	—	7,234,301
Balance at 1 January 2005, as previously separately reported as minority interests		—	—	3,467,807	3,467,807
Amortisation of leasehold land and land use rights	19	—	(459,085)	(18,904)	(477,989)
Adjustment for deferred tax arising from the revaluation of investment properties	19	—	215,152	9,233	224,385
Balance at 1 January 2005, as restated		635,160	6,355,208	3,458,136	10,448,504
Opening adjustment on adoption of HKAS 39	19	—	134,387	6,066	140,453
Opening adjustment on adoption of HKFRS 3	19	—	529,685	5,640	535,325
Balance at 1 January 2005 after opening adjustment, as restated		635,160	7,019,280	3,469,842	11,124,282
Currency translation differences	19	—	2,695	1,062	3,757
Decrease in fair value of available-for-sale financial assets	19	—	(21,673)	(43,964)	(65,637)
Net expenses recognised directly in equity		—	(18,978)	(42,902)	(61,880)
Profit for the period		—	132,434	228,903	361,337
Total recognised income for the six months ended 30 June 2005		—	113,456	186,001	299,457
Employees share option scheme - value of employee services	19	—	15,126	—	15,126
Issue of share capital	17 & 19	2,753	10,350	—	13,103
Dividend relating to 2004	19	—	(57,328)	(71,003)	(128,331)
		2,753	(31,852)	(71,003)	(100,102)
Balance at 30 June 2005		637,913	7,100,884	3,584,840	11,323,637

		Unaudited			
		Attributable to equity holders of the Company			
	Note	Share capital	Reserves	Minority interest	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2004, as previously reported as equity		624,872	6,344,488	—	6,969,360
Balance at 1 January 2004, as previously separately reported as minority interest		—	—	3,374,822	3,374,822
Amortisation of leasehold land and land use rights	19	—	(421,230)	(16,209)	(437,439)
Adjustment for deferred tax arising from the revaluation of investment properties	19	—	216,413	9,220	225,633
Balance at 1 January 2004, as restated		624,872	6,139,671	3,367,833	10,132,376
Currency translation differences	19	—	(496)	(170)	(666)
Release of reserve upon disposal of properties held for sale	19	—	(8,933)	—	(8,933)
Net expenses recognised directly in equity		—	(9,429)	(170)	(9,599)
Profit for the period		—	111,506	130,454	241,960
Total recognised income for the six months ended 30 June 2004		—	102,077	130,284	232,361
Employees share option schemes - value of employee services	19	—	6,223	—	6,223
Issue of share capital	17 & 19	7,369	22,536	—	29,905
Deemed acquisition of a subsidiary		—	—	27,822	27,822
Dividend relating to 2003	19	—	(68,123)	(179,034)	(247,157)
		7,369	(39,364)	(151,212)	(183,207)
Balance at 30 June 2004		632,241	6,202,384	3,346,905	10,181,530

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim accounts should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the GZI Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

These interim financial information have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these accounts. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial information.

The changes to the GZI Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Change in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the GZI Group adopted the new/revised HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases — Incentives
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 3	Revenue — Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of new/revised HKASs 1, 8, 16, 21, 24 and HKAS-Int 15 and HK-Int 4 did not result in substantial changes to the GZI Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.

- HKASs 8,16 and HKAS-Int 15 and HK-Int 4 had no material effect on the GZI Group's policies.

- HKAS 21 had no material effect on the GZI Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the GZI Group's entities have the same functional currency as the presentation currency for respective entity financial statements.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of investment properties of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use or through use and subsequent sale. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss accounts. Effective on 1 January 2005, the GZI Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was amortised on a straight-line basis over a maximum period of 20 years and assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3, the GZI Group ceased amortisation of goodwill from 1 January 2005 and the accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. The carrying amount of negative goodwill as at 1 January 2005 has been derecognised at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings.

The GZI Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment has resulted from this reassessment.

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from pre-completion contracts for the sale of properties under development for sale. Such revenue is recognised only upon completion of sale agreement, which refers to the time when properties are completed and delivered to the buyers. In prior years, the percentage of completion method was used as the policy to recognise revenue arising from pre-completion contracts for the sale of properties under development for sale.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the GZI Group require retrospective application other than:

- HKAS 16 under which the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transaction;

- HKAS 21 which requires prospective application for accounting goodwill and fair value adjustments as part of foreign operations;

- HKAS 39 which does not permit recognition, decognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis. The GZI Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to other investments for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39, if any, are determined and recognised at 1 January 2005;

- revised HKAS 40 since the GZI Group has adopted the fair value model, there is no requirement for the GZI Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property;

- HKAS-Int 15 which does not require the recognition of incentives for leases beginning before 1 January 2005;

- HKFRS 2 which only requires retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

- HKFRS 3 which is applied prospectively after the adoption date.

(b) **The impact of changes in accounting policies to the GZI Group**

The following is a summary of the effect of changes in the accounting policies described above on equity as at 1 January 2005 and results and earnings per share for the six months 30 June 2004:

Equity	**Increase/ (decrease)** As at 1 January 2005 *HK$'000*
Amortisation of leasehold land and land use rights (note i)	(477,989)
Revaluation surplus of financial assets (note ii)	140,453
Decrease in deferred tax on change of basis of recovery of revalued assets (note iii)	224,385
De-recognition of negative goodwill (note v)	535,325
	422,174

Results	**For the six months ended 30 June 2004** *HK$'000*
Amortisation of leasehold land and land use rights (note i)	(15,682)
Expenses related to share option schemes (note iv)	(6,223)
	(21,905)
Attributable to:	
Equity holders of the Company	(19,699)
Minority interests	(2,206)
	(21,905)

Earnings per share	**For the six months ended 30 June 2004** *HK cents*
Basic and diluted	
Amortisation of leasehold land and land use rights (note i)	(0.21)
Expenses related to share option schemes (note iv)	(0.10)
	(0.31)

The following is a summary of the effect of changes in the accounting policies described above on individual accounting caption:

Increase/(decrease)	(note i) Effect on adoption of HKAS 17	(note ii) Effect on adoption of HKAS 39	(note iii) Effect on adoption of HKAS-Int 21	(note iv) Effect on adoption of HKFRS 2	(note v) Effect on adoption of HKFRS 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit and loss account items for the six months ended 30 June 2004						
Cost of sales	23,901	—	—	—	—	23,901
Administrative expenses	3,527	—	—	6,223	—	9,750
Taxation	(11,746)	—	—	—	—	(11,746)
Minority interests	(2,206)	—	—	—	—	(2,206)
Earnings per share						
— basic (HK cents)	(0.21)	—	—	(0.10)	—	(0.31)
— diluted (HK cents)	(0.21)			(0.10)		(0.31)
Balance sheet items as at 1 January 2005						
Fixed assets	(89,967)	—	—	—	—	(89,967)
Leasehold land and land use rights — non-current portion	3,291,022	—	—	—	—	3,291,022
Other intangible assets	—	—	—	—	535,325	535,325
Interest in jointly controlled entities	(3,280)	—	—	—	—	(3,280)
Available-for-sales financial assets	—	456,231	—	—	—	456,231
Other investments	—	(261,347)	—	—	—	(261,347)
Properties held for/under development	(6,734,381)	—	—	—	—	(6,734,381)
Properties held for sale	(954,192)	—	—	—	—	(954,192)
Leasehold land and land use rights — current portion	3,766,295	—	—	—	—	3,766,295
Other receivables, prepayments and deposits	—	15,008	—	—	—	15,008
Total assets	(724,503)	209,892	—	—	535,325	20,714
Deferred tax liabilities	(246,514)	69,439	(224,385)	—	—	(401,460)
Total liabilities	(246,514)	69,439	(224,385)	—	—	(401,460)
Net assets	(477,989)	140,453	224,385	—	535,325	422,174
Reserves	(459,085)	134,387	215,152	—	529,685	420,139
Minority interests	(18,904)	6,066	9,233	—	5,640	2,035
Total equity	(477,989)	140,453	224,385	—	535,325	422,174

The adoption of HK-Int 3 has resulted in a change in the accounting policy relating to revenue recognition arising from pre-completion contracts for the sale of properties under development for sale and the effect for the consolidated balance sheet as at 30 June 2005 and consolidated profit and loss account for the six months ended 30 June 2005 are as follows:

	As at 30 June 2005
	HK'000
Increase in properties under development	394,476

	For the six month ended 30 June 2005
	HK'000
Decrease in sales	543,030
Decrease in cost of sales	394,476
Decrease in taxation	49,023
Decrease in earnings per share (HK cents)	1.52
Decrease in diluted earnings per share (HK cents)	1.50

3 **New Accounting Policies**

The accounting policies used for the condensed consolidated accounts for the six months ended 30 June 2005 are the same as those set out in note 1 to the 2004 annual accounts except for the following:

3.1 **Foreign currency translation**

(a) *Functional and presentation currency*

Items included in the financial statements of each of the GZI Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its Hong Kong subsidiaries maintain their books and records in Hong Kong Dollars while all other major group companies maintain their books and record in RMB. The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the GZI group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.2 **Investment properties**

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

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

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

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

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

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

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

Changes in fair values are recognised in the profit and loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement.

3.3 **Goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the GZI Group's share of the net identifiable assets of the acquired subsidiary/ associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in respective investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

If the GZI Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the GZI Group will:

— reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

— recognise immediately in profit and loss account any excess remaining after that reassessment.

3.4 **Impairment of assets**

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

3.5 **Investments**

From 1 January 2004 to 31 December 2004:

The GZI Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as other investments.

Other investments held for long term are stated at cost less accumulated impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair value have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

If the rights and interest in investments are to be surrendered by the GZI Group upon the termination of related joint venture period, amortisation is provided to write off its cost over the joint venture period on a straight-line basis. The results of other investments are accounted for on the basis of dividends received and receivable.

From 1 January 2005 onwards:

The GZI Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the GZI Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the GZI Group's management has the positive intention and ability to hold to maturity. During the period, the GZI Group did not hold any investments in this category.

(d) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The GZI Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement — is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

3.6 **Share-based compensation**

The GZI Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

4 **Financial risk management**

4.1 **Financial risk factors**

The GZI Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk.

(a) *Foreign exchange risk*

Certain of the subsidiaries of the GZI Group operates in Mainland China with most of the transactions denominated in Renminbi. The GZI Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars. It has not hedged its foreign exchange rate risk.

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

(b) *Credit risk*

The GZI Group has no significant concentrations of credit risk. The carrying amount of the trade receivables included in the consolidated balance sheets represents the GZI Group's maximum exposure to credit risk in relation to its financial assets.

(c) *Liquidity risk*

The GZI Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) *Cash flow and fair value interest rate risk*

As the GZI Group has no significant interest-bearing assets, the GZI Group's income and operating cash flows are substantially independent of changes in market interest rates.

The GZI Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the GZI Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the GZI Group to fair value interest-rate risk. It has not hedged its cash flow and fair value interest rate risk.

4.2 Fair value estimation

The nominal value less estimated credit adjustments of accounts receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the GZI Group for similar financial instruments.

5 Critical accounting estimates and assumptions

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

5.1 Critical accounting estimates and assumptions

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

(a) *Definition of interests in toll highways and bridges*

Interests in toll highways and bridges of the GZI Group and investee companies comprise tangible infrastructures and intangible operating rights. Depreciation of tangible infrastructures is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

The GZI Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 2 per cent to 5 per cent.

(b) *Estimated impairment of goodwill*

The GZI Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 3.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) *Estimated impairment of properties and equipment, investment properties, leasehold land and land use rights and properties under development for long-term investment*

Properties and equipment, investment properties, leasehold land and land use rights and properties under development for long-term investment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of properties and equipment, leasehold land and land use rights and properties under development for long-term investment have been determined based on value-in-use calculations; while that of investment properties has been determined with reference to independent valuations. These calculation and valuations require the use of judgement and estimates.

(d) *Estimated write-downs of properties under development for sale and completed properties for sale*

The GZI Group writes down properties under development for sale and completed properties for sale to net realisable value based on assessment of the realisability of properties under development for sale and completed properties for sale. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value and write-downs of properties under development for sale and completed properties for sale in the periods in which such estimate is changed.

(e) *Estimate of fair value of investment properties*

The best evidence of fair value is current prices in an active market for similar lease and other contracts. The GZI Group employed an independent firm of professional surveyor, Greater China Appraisal Limited, to determine the open market values for the investment properties of the GZI Group.

In the absence of such information, the GZI Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the GZI Group considers information from a variety of sources including:

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

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

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

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

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

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

(f) *Estimate of fair value of share-based options*

The GZI Group has taken advantage of the transitional provisions of HKFRS 2 to apply the standard to grants of share options after 7 November 2002 and had not yet vested at 1 January 2005. Share options vested before 1 January 2005 totalling 230,790,200 were not included in the calculation of fair value of options granted.

The fair value of options granted was determined using the Black-Scholes valuation model which was performed by an independent valuer, Greater China Appraisal Limited. The significant inputs into the model were share price at the grant date, exercise price, standard deviation of expected share price returns, expected life of options, expected dividend paid out rate and annual risk-free rate. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year before the option granted date.

(g) *Current taxation and deferred taxation*

The GZI Group is subject to taxation in Mainland China and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation assets and taxation in the periods in which such estimate is changed.

5.2 **Critical judgements in applying the entity's accounting policies**

Distinction between investment properties and owner-occupied properties

The GZI Group determines whether a property qualifies as investment property. In making its judgement, the GZI Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the GZI Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The GZI Group considers each property separately in making its judgement.

6 **Segment information**

The GZI Group is principally engaged in development, operation and management of toll highways and bridges, development, selling and management of properties and holding of investment properties, manufacturing and trading of newsprint. Turnover and segment results for the period are as follows:

Primary reporting format — business segments

The GZI Group operates mainly in Hong Kong and Mainland of China ("China") and in three main business segments:

— Properties - development, selling and management of properties and holding of investment properties

— Toll operations - development, operation and management of toll highways and bridges

— Paper - manufacturing and selling of newsprint

There are no significant sales between the business segments.

Secondary reporting format — geographical segments

The GZI Group's three business segments are mainly managed in Hong Kong and China:

Hong Kong — properties
China — properties, paper and toll operations
Others — properties

There are no significant sales between the geographical segments.

Primary reporting format — business segments

	Six months ended 30 June							
	Toll operations		**Properties**		**Paper**		**Group**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
		Restated		Restated		Restated		Restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	204,006	191,002	767,512	1,520,151	616,673	562,857	1,588,191	2,274,010
Segment results	87,926	70,925	551,399	181,094	68,505	52,493	707,830	304,512
Interest income							3,789	3,077
Unallocated operation costs							(25,839)	(23,704)
Finance costs							(114,092)	(75,463)
Share of profits less losses of:								
— Jointly controlled entities	20,008	252	(5,474)	—	—	—	14,534	252
— Associated companies	103,008	91,035	—	308	—	—	103,008	91,343
Profit before taxation							689,230	300,017
Taxation							(327,893)	(58,057)
Profit for the period							361,337	241,960
Capital expenditure	1,309	4,404	84,350	542	101,569	30,558	187,228	35,504
Depreciation and amortisation	52,057	56,883	79,094	66,807	57,964	61,332	189,115	185,022

	As at 30 June 2005 and 31 December 2004							
	Toll operations		Properties		Paper		Group	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004	30 June 2005	31 December 2004
		Restated		Restated		Restated		Restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	2,120,203	2,229,404	18,684,566	17,331,255	1,592,434	1,495,642	22,397,203	21,056,301
Interests in jointly controlled entities	495,482	422,892	243,772	220,545	—	—	739,254	643,437
Interests in associated companies	1,686,656	1,671,842	88,821	88,506	—	—	1,775,477	1,760,348
Unallocated assets							1,392,772	1,016,434
Total assets							26,304,706	24,476,520
Segment liabilities	722,574	768,172	10,401,586	9,430,464	589,427	506,246	11,713,587	10,704,882
Unallocated liabilities							3,267,482	3,323,134
Total liabilities							14,981,069	14,028,016

Secondary reporting format — geographical segments

	For the six months ended 30 June				As at 30 June 2005 and 31 December 2004 Total assets	
	Turnover		Capital expenditure			
	2005	2004	2005	2004	30 June 2005	31 December 2004
		Restated		Restated		Restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	82,853	392,883	1,686	925	1,319,396	1,362,281
China	1,504,457	1,856,258	185,533	34,579	23,558,495	22,051,223
Overseas	881	24,869	9	—	34,043	46,582
	1,588,191	2,274,010	187,228	35,504	24,911,934	23,460,086
Unallocated asset					1,392,772	1,016,434
Total assets					26,304,706	24,476,520

7 **Expenses by nature**

Expenses included in cost of sales, selling and distribution expenses and general and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2005	**2004**
		Restated
	HK$'000	*HK$'000*
Charging		
Advertising expenses	43,275	43,630
Cost of inventories sold	966,073	1,520,737
Direct operating expenses arising from investment properties that generate rental income	73,338	44,573
Depreciation:		
- Owned fixed assets	79,659	68,474
- Leased fixed assets	13	13
Amortisation/depreciation of interests in toll highways and bridges	50,779	50,696
Amortisation of leasehold land and land use right		
- included in cost of sales	54,775	61,820
- included in administrative expenses	3,889	4,019
Derivative instruments — interest rate swap not qualifying as hedge	4,206	7,173
Provision for impairment in value of fixed assets	10,418	—
Write-down of properties held for/under development to net realisable value	31,850	—
Staff costs		
- Wages and salaries (including directors' remuneration)	98,195	93,198
- Pension costs — defined contribution plans	8,475	7,545
- Medical benefits costs	2,050	3,501
- Social security costs	11,472	8,093
- Termination benefits	874	6,349
- Staff welfare	7,071	9,051
- Share option granted to directors and employees	15,126	6,223
Operating leases		
- Hire of plant and workshops	8,107	8,184
- Land and buildings	37,336	25,643
Provision for doubtful debts	49,272	2,891
Net exchange loss	1,517	—

8 **Taxation**

(a) Hong Kong profits tax has been provided at the rate of 17.5 per cent (2004: 17.5 per cent) on the estimated assessable profit for the period.

(b) China enterprise income taxation is provided on the profits of the GZI Group's subsidiaries, associated companies and jointly controlled entities in Mainland China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at 18 per cent to 33 per cent. Under the China Tax Law, certain of the GZI Group's subsidiaries, associated companies and jointly controlled entities in China are entitled to an income tax holiday for two to five years from its first profit making year followed by a 50 per cent reduction in income tax for the next three to five years.

(c) China land appreciation tax is levied at progressive rates ranging from 30 per cent to 60 per cent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including costs of land and development and construction expenditure.

(d) The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2005	**2004**
		Restated
	HK$'000	*HK$'000*
Current taxation		
— Hong Kong profits tax	809	1,086
— Underprovision in prior years	5,545	—
— China enterprise income tax	33,821	48,785
— China land appreciation tax	2,210	8,695
Deferred taxation in relation to the origination and reversal of temporary differences	285,508	(509)
	327,893	58,057

Share of China enterprise income taxation attributable to the following are included in the profit and loss account as share of results of associated companies and jointly controlled entities:

	Six months ended 30 June	
	2005	**2004**
		Restated
	HK$'000	*HK$'000*
Associated companies		
— current taxation	8,521	7,138
— deferred taxation	5,648	5,794
Jointly controlled entities		
— current taxation	602	—
— deferred taxation	1,668	1,748

9 **Earnings per share**

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June 2005	2004 Restated
Profit attributable to equity holders of the Company (HK$'000)	132,434	111,506
Weighted average number of ordinary shares in issue ('000)	6,362,643	6,300,121
Basic earnings per share (HK cents)	2.08	1.77

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June 2005	2004 Restated
Profit attributable to equity holders of the Company (HK$'000)	132,434	111,506
Weighted average number of ordinary shares in issue ('000)	6,362,643	6,300,121
Adjustments for - share options ('000)	96,957	131,390
Weighted average number of ordinary shares for diluted earnings per share ('000)	6,459,600	6,431,511
Diluted earnings per share (HK cents)	2.05	1.73

10 **Dividend**

	Six months ended 30 June 2005	2004
	HK$'000	*HK$'000*
2005 interim, proposed of HK$0.01 (2004: HK$0.0083) per share	64,028	52,531

11 Capital expenditure

	Other intangible assets			Interests in toll highways and bridges					
	Goodwill on acquisition of subsidiaries	Negative goodwill on acquisition of subsidiaries	Total	Intangible Operating rights	Tangible infrastructure	Total	Fixed assets	Investment properties	Leasehold land and land use right
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Opening net book value at 1 January 2005, as previously reported	45,365	(535,325)	(489,960)	1,665,040	336,336	2,001,376	1,441,325	4,775,305	—
Effect of changes in accounting policies	—	—	—	—	—	—	(89,967)	—	7,057,317
Opening net book value at 1 January 2005, as restated	45,365	(535,325)	(489,960)	1,665,040	336,336	2,001,376	1,351,358	4,775,305	7,057,317
Opening adjustments on adoption of HKFRS 3	—	535,325	535,325	—	—	—	—	—	—
Net book value at 1 January 2005 after opening adjustments	45,365	—	45,365	1,665,040	336,336	2,001,376	1,351,358	4,775,305	7,057,317
Additions	—	—	—	1,037	—	1,037	123,266	62,925	—
Disposals	—	—	—	—	—	—	(51,501)	(178,824)	(89,163)
Revaluation surplus	—	—	—	—	—	—	—	662,539	—
Transfers from properties held for sales	—	—	—	—	—	—	33,376	88,584	—
Transfers	—	—	—	—	—	—	(1,033)	48,272	(47,238)
Depreciation/amortisation for the period	—	—	—	(44,473)	(6,306)	(50,779)	(79,672)	—	(58,664)
Closing net book value at 30 June 2005	45,365	—	45,365	1,621,604	330,030	1,951,634	1,375,794	5,458,801	6,862,252
Analysis as:									
Non-current									3,124,223
Current									3,738,029
									6,862,252

Note: Majority of leasehold land and land use rights and investment properties of the GZI Group are located in China.

	Other intangible assets			Interests in toll highways and bridges					
	Goodwill on acquisition of subsidiaries	Negative goodwill on acquisition of subsidiaries	Total	Intangible Operating rights	Tangible infrastructure	Total	Fixed assets	Investment properties	Leasehold land and land use right
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Opening net book value at 1 January 2004, as previously reported	49,039	(584,292)	(535,253)	1,750,864	348,783	2,099,647	1,405,545	4,845,537	—
Effect of changes in accounting policies	—	—	—	—	—	—	(99,278)	—	8,143,566
Opening net book value at 1 January 2004, as restated	49,039	(584,292)	(535,253)	1,750,864	348,783	2,099,647	1,306,267	4,845,537	8,143,566
Additions	—	—	—	85	—	85	35,419	—	—
Disposals	—	—	—	—	—	—	(1,634)	(28,406)	(317,482)
Depreciation/amortisation for the period	(1,590)	16,553	14,963	(44,472)	(6,224)	(50,696)	(68,487)	—	(65,839)
Closing net book value at 30 June 2004	47,449	(567,739)	(520,290)	1,706,477	342,559	2,049,036	1,271,565	4,817,131	7,760,245
Additions	—	—	—	3,035	—	3,035	41,116	122,978	—
Transfer (to)/from properties held for/under development	—	—	—	—	—	—	46,260	(261,873)	—
Revaluation surplus	—	—	—	—	—	—	—	76,750	—
Disposals	—	—	—	—	—	—	(16,368)	—	(550,389)
Transfer	—	—	—	—	—	—	78,444	20,319	(98,763)
Depreciation/amortisation for the period	(2,084)	32,414	30,330	(44,472)	(6,223)	(50,695)	(69,659)	—	(53,776)
Closing net book value at 31 December 2004	45,365	(535,325)	(489,960)	1,665,040	336,336	2,001,376	1,351,358	4,775,305	7,057,317
Analysis as:									
Non-current									3,291,022
Current									3,766,295
									7,057,317

12 **Available-for-sale financial assets**

	30 June 2005
	HK$'000
At the beginning of the period	456,231
Additions	463
Decrease in fair value charged to equity	(65,002)
Impairment losses	(2,673)
Disposals	(1,639)
At the end of the period	387,380

Balances represent financial assets of unlisted securities stated at market value at 30 June 2005.

13 **Trade receivables**

The GZI Group has defined credit policies for different business segments and markets. The credit terms of the GZI Group are generally within three to six months. The ageing analysis of the trade receivables is as follows:

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
0 - 30 days	118,889	174,569
31 - 90 days	97,266	76,788
91 - 180 days	37,260	81,345
181 - 365 days	74,318	43,789
Over 1 year	99,904	81,377
	427,637	457,868

14 **Trade payables**

Trade payables include trade balances with creditors and retention money payable on construction contracts.

The ageing analysis of the trade payables is as follows:

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
0 - 30 days	98,352	32,433
31 - 90 days	31,629	70,560
91 - 180 days	54,962	24,008
181 - 365 days	3,962	65,755
1 - 2 year	35,905	39,243
Over 2 years	134,164	182,494
	358,974	414,493

15 **Borrowings**

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
Non-current		
Long term bank borrowings		
— Secured	3,406,669	2,726,859
— Unsecured	336,706	420,806
Obligations under finance leases — Secured	40	53
Loans from ultimate holding company — Unsecured	254,710	298,890
Loans from related companies — Unsecured	126,962	127,917
Loans from minority shareholders of subsidiaries — Unsecured	465,635	463,887
	4,590,722	4,038,412
Current		
Bank overdrafts - Unsecured	8,933	24,763
Short-term bank borrowings		
— Secured	112,150	453,644
— Unsecured	566,532	608,919
Current portion of long-term bank borrowings		
— Secured	689,622	645,277
— Unsecured	228,998	314,222
Obligations under finance leases — Secured	25	25
Loans from ultimate holding company — Unsecured	1,189	—
	1,607,449	2,046,850
Total borrowings	6,198,171	6,085,262

The maturity of borrowings is as follows:

	Bank borrowings and overdrafts		**Other loans**	
	30 June 2005	**31 December 2004**	**30 June 2005**	**31 December 2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,606,235	2,046,825	1,214	25
In the second year	768,277	1,324,388	25	25
In the third to fifth year	2,975,098	1,823,277	253,012	267,487
With no fixed repayment terms	—	—	594,310	623,235
	5,349,610	5,194,490	848,561	890,772

16 **Derivative financial instrument**

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
Interest-rate swaps	33,228	29,021

The notional principal amount of the outstanding interest-rate swap amounted to HK$2,535,000,000 (31 December 2004: HK$2,535,000,000).

17 **Share capital**

	Company	
	Number of Shares	
	'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	10,000,000	1,000,000
Issued and fully paid:		
At 1 January 2004	6,248,718	624,872
Issue of share upon exercise of share options	102,880	10,288
At 31 December 2004	6,351,598	635,160
At 1 January 2005	6,351,598	635,160
Issue of share upon exercise of share options	27,528	2,753
At 30 June 2005	6,379,126	637,913

18 **Share options**

On 26 June 2002, the Company has adopted a new share option scheme, under which it may grant options to employees (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10 per cent of the number of shares in issue as at 26 June 2002. The exercise price will be determined by the Company's Board of Directors and shall at least be the highest of (i) the closing price of the Company's shares on the date of grant of the options, (ii) an average closing price of the Company's shares for the five business days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company's shares.

As at 30 June 2005, there were outstanding options granted under an old share option scheme to subscribe for an aggregate of 6,798,000 shares of the Company. All options granted under the old share option scheme will continue to be valid and exercisable in accordance with the rules of the old share option scheme.

Movement of share options are as follows:

	Number of share options *'000*
At 1 January 2004	393,526
Granted during the period	320,310
Exercised during the period	(73,690)
Lapsed during the period	(228)
At 30 June 2004	639,918
Exercised during the period	(29,190)
Lapsed during the period	(6,720)
At 31 December 2004	604,008
At 1 January 2005	604,008
Exercised during the period	(27,528)
Lapsed during the period	(8,496)
At 30 June 2005	567,984

Particulars of share options as at 30 June 2005 and 31 December 2004 are as follows:

			Number of share options	
		Exercise	as at 30 June	as at 31 December
Date of grant	**Exercise period**	**price**	**2005**	**2004**
		HK$	*'000*	*'000*
Old share option scheme				
14 December 1999	14 December 2000 - 13 December 2005	0.5008	6,798	9,626
New share option scheme				
2 May 2003	2 May 2003 - 1 May 2013	0.4100	86,876	109,180
2 June 2003	2 June 2003 - 1 June 2013	0.5400	58,950	60,150
27 October 2003	27 October 2003 - 26 October 2013	0.8140	12,404	12,404
23 December 2003	23 December 2003 - 22 December 2013	0.8460	100,234	100,234
23 June 2004	23 June 2004 - 22 June 2014	0.6300	302,722	312,414
			567,984	604,008

Out of 567,984,000 outstanding options (31 December 2004: 604,008,000), 394,559,200 options (31 December 2004: 230,790,200) were exercisable as at the six months ended 30 June 2005 and year ended 31 December 2004.

The GZI Group has taken advantage of the transitional provisions of HKFRS 2 to apply the standard to grants of share options after 7 November 2002 and had not yet vested at 1 January 2005. Share options vested before 1 January 2005 totalling 230,790,200 were not included in the calculation of fair value of options granted.

The fair value of options granted was determined using the Black-Scholes valuation model which was performed by an independent valuer, Greater China Appraisal Limited. The significant inputs into the model were share price at the grant date, exercise price, standard deviation of expected share price returns, expected life of options, expected dividend paid out rate and annual risk-free rate. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year before the option granted date.

19 Reserves

	(Unaudited)						
	Share premium	Capital redemption reserve	Statutory reserves	Exchange fluctuation reserves	Employee share-based compensation reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2004, as previously reported	5,707,378	1,815	62,606	(76,709)	—	649,398	6,344,488
Amortisation of leasehold land and land use rights	—	—	—	—	—	(421,230)	(421,230)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	216,413	216,413
Recognition of share-based options expenses	—	—	—	—	4,016	(4,016)	—
Balance at 1 January 2004, as restated	5,707,378	1,815	62,606	(76,709)	4,016	440,565	6,139,671
Currency translation differences, GZI Group	—	—	—	(496)	—	—	(496)
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(8,933)	(8,933)
Profit attributable to equity holders of the Company	—	—	—	—	—	111,506	111,506
Transfers	—	—	260	—	—	(260)	—
Employee share option scheme expenses	—	—	—	—	6,223	—	6,223
Issue of shares net of issuing expenses	22,536	—	—	—	—	—	22,536
Dividend paid	—	—	—	—	—	(68,123)	(68,123)
Balance at 30 June 2004	5,729,914	1,815	62,866	(77,205)	10,239	474,755	6,202,384
Currency translation differences, GZI Group	—	—	—	(1,092)	—	—	(1,092)
Provision for impairment of goodwill	—	—	—	—	—	43,533	43,533
Release of reserve upon disposal of properties held for sales	—	—	—	—	—	(21,742)	(21,742)
Release of reserve upon deemed disposal of certain interest in a subsidiary	—	—	(1)	(2)	—	—	(3)
Profit attributable to equity holders of the Company	—	—	—	—	—	157,582	157,582
Transfers	—	—	16,532	—	—	(16,532)	—
Employee share option scheme expenses	—	—	—	—	16,396	—	16,396
Issue of shares net of issuing expenses	10,819	—	—	—	—	—	10,819
Dividend paid	—	—	—	—	—	(52,669)	(52,669)
Balance at 31 December 2004	5,740,733	1,815	79,397	(78,299)	26,635	584,927	6,355,208
Representing:							
2004 Final dividend proposed						57,266	
Others						527,661	
						584,927	

(Unaudited)

	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Statutory reserves *HK$'000*	Exchange fluctuation reserves *HK$'000*	Available-for-sale financial assets fair value reserves *HK$'000*	Employee share-based compensation reserves *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Balance at 1 January 2005, as previously reported as equity	5,740,733	1,815	79,397	(78,299)	—	—	855,495	6,599,141
Amortisation of leasehold land and land use rights	—	—	—	—	—	—	(459,085)	(459,085)
Adjustment for deferred tax arising from the revaluation of investment properties	—	—	—	—	—	—	215,152	215,152
Recognition of share-based options expenses	—	—	—	—	—	26,635	(26,635)	—
Balance at 1 January 2005, as restated	5,740,733	1,815	79,397	(78,299)	—	26,635	584,927	6,355,208
Opening adjustment on adoption of HKAS 39	—	—	—	—	—	—	134,387	134,387
Opening adjustment on adoption of HKFRS 3	—	—	—	—	—	—	529,685	529,685
Balance at 1 January 2005 after opening adjustments, as restated	5,740,733	1,815	79,397	(78,299)	—	26,635	1,248,999	7,019,280
Currency translation differences, GZI Group	—	—	—	2,695	—	—	—	2,695
Change of fair value of financial assets								
— gross	—	—	—	—	(21,038)	—	—	(21,038)
— tax	—	—	—	—	(635)	—	—	(635)
Profit attributable to equity holders of the Company	—	—	—	—	—	—	132,434	132,434
Transfers	—	—	7,333	—	134,387	—	(141,720)	—
Employee share option scheme expenses	—	—	—	—	—	15,126	—	15,126
Issue of shares net of issuing expenses	10,350	—	—	—	—	—	—	10,350
Dividend relating to 2004	—	—	—	—	—	—	(57,328)	(57,328)
At 30 June 2005	5,751,083	1,815	86,730	(75,604)	112,714	41,761	1,182,385	7,100,884
Representing:								
2005 Interim dividend proposed							64,028	
Others							1,118,357	
							1,182,385	

Included in the GZI Group's retained profits are retained profits amounting to HK$904,949,000 (31 December 2004: HK$801,941,000) and accumulated losses of HK$280,388,000 (31 December 2004: HK$298,204,000) which are attributable to associated companies and jointly controlled entities, respectively.

Statutory reserves represent enterprise expansion and general reserve funds set by the subsidiaries and associated companies in China. As stipulated by regulation in China, the Company's subsidiaries and associated companies established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors, according to the Foreign Investment Enterprises Accounting Standards in China, upon approval by the board, the general reserve fund may be used for making up losses and increasing capital while the enterprise expansion fund may be used for increasing capital. Included in the GZI Group's statutory reserves is HK$538,000 (31 December 2004: HK$538,000) attributable to associated companies.

20 **Deferred taxation**

Deferred taxation are calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation as at 30 June 2005 represents:

	30 June 2005	**31 December 2004 Restated**
	HK$'000	*HK$'000*
Deferred tax assets		
— Hong Kong profits tax	7,110	10,054
— China enterprise income tax	49,428	46,145
	56,538	56,199
Deferred tax liabilities		
— Hong Kong profits tax	15,805	15,648
— China enterprise income tax	1,564,838	1,514,192
— China land appreciation tax	1,888,776	1,629,540
	3,469,419	3,159,380

21 **Contingent liabilities**

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
Guarantees for mortgage facilities granted to certain buyers of the GZI Group's properties *(Note)*	126,441	250,250

Note:

The GZI Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon issuance of the real estate ownership certificate.

Except for the above, there is no material change in contingent liabilities since the last annual balance sheet date.

22 **Commitments under operating leases**

The GZI Group had future aggregate minimum lease payments under non-cancellable leases in respect of land and buildings as follows:

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
Land and buildings		
Not later than one year	27,032	26,380
Later than one year and not later than five years	100,288	97,388
Later than five years	213,188	215,354
	340,508	339,122

23 **Other commitments**

	30 June 2005	**31 December 2004**
	HK$'000	*HK$'000*
Commitments in respect of acquisition of fixed assets, contracted but not provided for	25,267	14,359

24 **Pledge of assets**

At 30 June 2005, certain banking facilities and loans granted to the GZI Group and the Company were secured by the following:

(a) certain of the GZI Group's fixed assets, properties held for/under development, properties held for sale and investment properties with an aggregate carrying value of HK$44 million (31 December 2004: Nil), HK$736 million (31 December 2004: HK$514 million), HK$520 million (31 December 2004: HK$291 million) and HK$3,853 million (31 December 2004: HK$3,230 million) respectively;

(b) floating charge over certain assets of certain subsidiaries with aggregate net book value of HK$6,465 million (31 December 2004: HK$438 million);

(c) mortgages of the GZI Group's shareholdings in certain subsidiaries; and

(d) charge over certain intercompany loans.

25 **Significant related party transactions and balances**

a) *Related parties*

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. The table set forth below summarised the names of significant parties and nature of relationship with the Company as at 30 June 2005:

Significant related party	**Relationship with the Company**
Yue Xiu Enterprises (Holdings) Limited ("YXE")	The ultimate holding company
Yue Xiu International Development Limited ("YXIDL")	A subsidiary of YXE
Yue Xiu Hotel and Housing Investment Limited	A subsidiary of YXE
Yue Xiu Corporate Consultancy and Services Co., Ltd.	A subsidiary of YXE
Guangzhou Highways Development Company ("GHDC")	A minority shareholder of subsidiaries
Guangzhou Paper Holdings Limited ("GZPHL")	A minority shareholder of a subsidiary
Super Win Trading Ltd ("SWTL")	A minority shareholder of a subsidiary
Smart Image Investment Ltd ("SIIL")	A minority shareholder of a subsidiary
Festoon Enterprises Limited ("Festoon")	A minority shareholder of a subsidiary
Guangzhou City Construction & Development Holdings Limited ("GCDHL")	A minority shareholder of a subsidiary
Guangdong Xinshidai Real Estate Limited	A jointly controlled entity of a subsidiary
Guangzhou Northern Second Ring Expressway Co., Limited	A jointly controlled entity of a subsidiary
Guangzhou Western Second Ring Expressway Co., Limited	A jointly controlled entity of a subsidiary
Hainan China City Property Development Co., Limited	A jointly controlled entity of a subsidiary
Zhoushan Xinyuan Real Estate Development Co., Limited	A jointly controlled entity of a subsidiary
Guangdong Humen Bridge Co., Limited	An associated company of a subsidiary
Guangdong Qinglian Highway Development Co., Limited	An associated company of a subsidiary
Guangdong Shantou Bay Bridge Co., Limited	An associated company of a subsidiary
Guangzhou Northring Freeway Co., Limited	An associated company of a subsidiary
Guangzhou Xin Yue Real Estate Development Co., Limited	An associated company of a subsidiary
State-controlled enterprises (see (e) below)	Related parties of the Company

b) *Transactions with related parties other than state-controlled enterprises*

	Six months ended 30 June	
	2005	**2004**
	HK$'000	*HK$'000*
Transactions with YXE		
Rental expenses paid to YXE	1,127	528
Loan interest paid to YXE	3,617	1,521
Transactions with GZPHL		
Rental and utility expenses paid to GZPHL (Note)	136,343	92,016
Transactions with YXIDL		
Loan interest paid to YXIDL	1,081	472

Note:

The rental and utility expenses paid to GZPHL were conducted in accordance with the terms as disclosed in the GZI Group's 2004 annual report.

All the other related party transactions were carried out at the terms as agreed by the relevant parties.

c) *Balances with related parties other than state-controlled enterprises*

	30 June 2005	**31 December 2004**
	HK\$'000	*HK\$'000*
Balances with YXE Group		
Amounts due from YXE Group *(Note i)*	1,219	3,234
Loans from YXE Group *(Note ii)*	(382,861)	(426,807)
Balances with jointly controlled entities		
Amounts due from jointly controlled entities *(Note i)*	185,312	155,664
Amounts due to jointly controlled entities *(Note i)*	(120,661)	(123,442)
Balances with associated companies		
Amounts due from associated companies *(Note iii)*	792,757	854,278
Amounts due to associated companies *(Note i)*	(112,150)	(112,150)
Balance with SIIL		
Loans from SIIL *(Note i)*	(23,340)	(23,340)
Balance with SWTL		
Loans from SWTL *(Note i)*	(2,000)	(2,000)
Balance with GZPHL		
Amounts due to GZPHL *(Note i)*	(2,700)	(599)
Balance with GCDHL		
Amounts due to GCDHL *(Note i)*	(80,482)	(118,107)
Balances with GHDC		
Loans from GHDC *(Note iv)*	(403,487)	(403,487)
Amounts due to GHDC *(Note i)*	(68,610)	(68,125)
Balance with Festoon		
Loans from Festoon *(Note i)*	(34,108)	(35,060)

Note:

(i) Balances are unsecured, interest-free and repayable on demand.

(ii) Except for an aggregate amount of HK$353,749,000 (31 December 2004: HK$351,994,000) which bears interest at Hong Kong Interbank Offered Rate plus 1 per cent per annum, the remaining balances are interest free. Except for an aggregate amount of HK$273,560,000 (31 December 2004: HK$267,459,000), which has fixed repayment terms over 1 year, the remaining balances do not have fixed repayment term.

(iii) Except for loans in aggregate amount of HK$506,927,000 (2004: HK$568,414,000) which bear interest at prevailing Hong Kong dollars prime rates ranging of 5 to 5.75 per cent per annum; US dollars prime rates ranging from 5.25 to 6 per cent per annum and lending rate of financial institutions in China is 6.12 per cent per annum, the remaining balance are unsecured, interest-free and repayment on demand.

(iv) Except for an aggregate amount of HK$120,561,000 (2004: HK$120,561,000) which bears interest at the prevailing leading rates of financial institutions in China ranging from 4.00 to 6.12 per cent per annum, the remaining balances are interest-free and have no fixed repayment term.

d) *Key management compensation*

The aggregate amounts of emoluments paid or payable to key management of the Company are as follows:

	Six months ended 30 June	
	2005	**2004**
	HK$'000	*HK$'000*
Fees	—	—
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	1,726	1,877
Share-based payments	—	367
Directors' pension	34	45
	1,760	2,289

e) *Transactions with state-controlled enterprises*

Under HKAS 24, business transactions between state-controlled enterprises controlled by Chinese government are within the scope of related party transactions. YXE, the ultimate holding company of the GZI Group, is a state-controlled enterprise. The GZI Group's key business transactions with other state-controlled enterprises are primarily related to construction and sales of newsprint activities. The related party transactions with other state-controlled enterprises were conducted in the ordinary course of business. Due to complex ownership structure, the Chinese government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known by the GZI Group. Nevertheless, the GZI Group believes that the following shall capture the material related party transactions.

As at 30 June 2005, more than 89 per cent (31 December 2004: more than 91 per cent) of bank deposits were with state-controlled banks; approximately 26 per cent (31 December 2004: approximately 24 per cent) of the trade receivables were with stated-controlled enterprises; more than 50 per cent (31 December 2004: more than 73 per cent) of the trade payables were with stated-controlled enterprises; all the land premium payable (31 December 2004: all) were with stated-controlled bodies; approximately 25 per cent (31 December 2004: approximately 25 per cent) of other payables and accrued charges were with state-contolled enterprises; approximately 44 per cent (31 December 2004: approximately 51 per cent) of bank borrowings were with state-controlled banks.

For the six months ended 30 June 2005, approximately 17 per cent (2004: approximately 11 per cent) of the sales of the GZI Group were with stated-controlled enterprises; more than 90 per cent (2004: more than 90 per cent) construction fee were paid to stated-controlled enterprises; more than 85 per cent (2004: approximately 71 per cent) of bank deposit interest incomes were from state-controlled banks; approximately 20 per cent (2004: approximately 57 per cent) of finance costs were paid to state-controlled banks.

26 **Event after balance sheet date**

On 21 September 2005, the GZI Group has been successful in the tender for the right to build the West Tower of Zhujiang New City Twin Towers in Guangzhou (the "Project"). The site area of the Project amounts to 31,085 square meters and the project is expected to commence this year and to be completed in 2009. As the GZI Group has yet to enter into formal agreement in relation to the tender, the Company's directors consider it to be more appropriate to make an estimate of the financial effect at a later stage when detailed terms of development of the Project are finalized.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL OF THE COMPANY

As at Latest Practicable Date, the authorised share capital of the Company was HK$1,000,000,000 divided into 10,000,000,000 Shares, of which 6,437,007,914 Shares were issued and fully paid.

3. DISCLOSURE OF DIRECTORS' INTERESTS IN THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives (if any) of the Company had, or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interests and short positions which they were taken or deemed to have under such provisions of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(a) **Long positions in shares of the Company and its associated corporations**

Directors	Interests in the Company or its associated corporation	Capacity in holding interest	Approximate % of shareholding in the same class of securities	Number and class of securities
Mr. Liang Ningguang	The Company	Beneficial owner	0.01	400,000 Shares
Mr. Lee Ka Lun	The Company	Beneficial owner	0.02	1,050,000 Shares

(b) **Long positions in underlying shares of equity derivatives of the Company and its associated corporations**

Directors	**Interests in the Company or its associated corporation**	**Capacity in holding interest**	**Date of grant** *(Note)*	**Exercise price per share** *HK$*	**Number of outstanding share options**
Mr. Ou Bingchang	The Company	Beneficial owner	02/06/2003	0.5400	9,000,000
Mr. Liang Yi	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Chen Guangsong	The Company	Beneficial owner	02/06/2003	0.5400	8,000,000
Mr. Liang Ningguang	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Li Fei	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Yu Lup Fat Joseph	The Company	Beneficial owner	02/06/2003	0.5400	3,500,000
Mr. Lee Ka Lun	The Company	Beneficial owner	02/06/2003	0.5400	2,450,000

Note: The share options are exercisable from 2nd June, 2003 to 1st June, 2013, of which a maximum of up to (i) 30 per cent.; and (ii) 60 per cent. (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.

As at the Latest Practicable Date, none of the Directors or the experts named in paragraph 6(a) below in this circular had any direct or indirect interests in any assets which have since 31 December 2004 (being the date to which the latest published audited consolidated accounts of the GZI Group were made up) been acquired or disposed of by or leased to any member of the GZI Group, or are proposed to be acquired or disposed of by or leased to any member of the GZI Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the GZI Group, which was subsisting and was significant in relation to the business of the GZI Group.

As at the Latest Practicable Date, none of the Directors and their respective associates had any competing interest with the GZI Group.

4. SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director or chief executive (if any) of the Company, no person (not being a Director or chief executive (if any) of the Company nor any member of the GZI Group), has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in 10 per cent. or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity in holding interest	Long/short position	Approximate % of shareholding in the same class of securities	Number and class of securities held
Yue Xiu *(Note 1)*	Beneficial owner and interest of controlled corporation	Long position	50.2	3,229,435,248 Shares
JPMorgan Chase & Co. *(Note 2)*	Investment manager and approved lending agent	Long position	5.1	328,517,000 Shares

Notes:

1. Yue Xiu has direct holding of 10,928,184 Shares and is deemed by the SFO to be interested in 3,218,507,064 Shares as a result of its indirect holding of such shares through its wholly-owned subsidiaries, details of which were as follows:

Name	Capacity in holding interest	Long/short position	Number and class of securities held
Excellence Enterprises Co., Ltd. ("**Excellence**") *(Note i)*	Interest of controlled corporation	Long position	3,174,015,064 Shares
Bosworth International Limited	Beneficial owner	Long position	2,279,312,904 Shares
Sun Peak Enterprises Ltd. ("**Sun Peak**") *(Note ii)*	Interest of controlled corporation	Long position	565,683,000 Shares
Novena Pacific Limited ("**Novena**")	Beneficial owner	Long position	565,683,000 Shares
Shine Wah Worldwide Limited ("**Shine Wah**") *(Note iii)*	Interest of controlled corporation	Long position	158,049,000 Shares
Morrison Pacific Limited ("**Morrison**")	Beneficial owner	Long position	158,049,000 Shares

Name	Capacity in holding interest	Long/short position	Number and class of securities held
Perfect Goal Development Co., Ltd. ("**Perfect Goal**") *(Note iv)*	Interest of controlled corporation	Long position	135,737,000 Shares
Greenwood Pacific Limited ("**Greenwood**")	Beneficial owner	Long position	135,737,000 Shares
Yue Xiu Finance Company Limited	Beneficial owner	Long position	44,492,000 Shares
Seaport Development Limited ("**Seaport**") *(Note v)*	Interest of controlled corporation	Long position	35,233,160 Shares
Goldstock International Limited ("**Goldstock**")	Beneficial owner	Long position	35,233,160 Shares

i. Excellence, a wholly-owned subsidiary of Yue Xiu, is deemed by the SFO to be interested in 3,174,015,064 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiaries.

ii. Sun Peak is deemed by the SFO to be interested in 565,683,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Novena.

iii. Shine Wah is deemed by the SFO to be interested in 158,049,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Morrison.

iv. Perfect Goal is deemed by the SFO to be interested in 135,737,000 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Greenwood.

v. Seaport is deemed by the SFO to be interested in 35,233,160 Shares as a result of its indirect holding of such Shares through its wholly-owned subsidiary, Goldstock.

2. The capacity of JPMorgan Chase & Co. in holding the 328,517,000 Shares is as to 305,936,000 Shares as investment manager and as to 22,581,000 Shares as approved lending agent.

5. MATERIAL CONTRACTS

Neither the Company nor any of its subsidiaries has entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular and which are or may be material.

6. EXPERTS' DISCLOSURE OF INTEREST AND CONSENT

(a) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Yu Ming	a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO
Colliers	independent property valuer

(b) As at the Latest Practicable Date, neither Yu Ming nor Colliers has any direct or indirect shareholding in any member of the GZI Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the GZI Group.

(c) Yu Ming and Colliers have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion therein of their letters or reports and reference to their names in the form and context in which they appear.

(d) The letter and advice given by Yu Ming and the report given by Colliers are given as of the date of this circular for incorporation herein.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, each of Messrs. Ou Bingchang and Liang Yi had entered into a service agreement with GZI Transport Limited, a subsidiary of the Company which, after an initial fixed term of one year commencing on 8 January 2003 and 28 February 2003 respectively, had been extended for a further term of two years up to 2006 unless terminated sooner by GZI Transport Limited giving to the relevant Director three months' prior written notice or by the relevant Director giving to GZI Transport Limited six months' prior written notice.

Save as disclosed above, none of the Directors had, as at the Latest Practicable Date, a service contract or a proposed service contract with any member of the GZI Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

8. NO MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the GZI Group since 31 December 2004, the date to which the latest published consolidated audited accounts of the GZI Group were made up.

9. LITIGATION

As at the Latest Practicable Date, no member of the GZI Group was engaged in any litigation, arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Article 58 of the Articles of Association sets out the procedure by which Shareholders may demand a poll:

At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of a show of hands) a poll is duly demanded or a poll is required under the Listing Rules. A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) not less than five members having the right to vote at the meeting; or

(iii) a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members holding Shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

Unless a poll be so demanded, a declaration by the chairman of the meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost, or not carried by a particular majority, and an entry to that effect in the minutes of the meeting, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

11. GENERAL

(a) The registered office of the Company is situated at 24th Floor, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

(b) The company secretary of the Company is Mr. Yu Tat Fung, solicitor of the High Court of Hong Kong.

(c) The qualified accountant of the Company is Ms. Ko Yung Lai Jackie, who is qualified as fellow member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants (United Kingdom).

(d) The English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of the Company at 24/F., Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the audited consolidated accounts of the GZI Group for the two financial years ended 31 December 2004;

(c) the unaudited interim report of the GZI Group for the six months ended 30 June 2005;

(d) the letter of advice from Yu Ming to the Independent Board Committee and the Shareholders, the text of which is set out on pages 50 to 71 of this circular;

(e) the property valuation report;

(f) the written consents referred to in the paragraph headed "Experts' disclosure of interest and consent" of this Appendix;

(g) the service contracts referred to in paragraph 7 of this Appendix; and

(h) the circular of the Company dated 21 March 2005.

越秀投資有限公司

GUANGZHOU INVESTMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 123)

NOTICE IS HEREBY GIVEN THAT the Extraordinary General Meeting ("EGM") of the Guangzhou Investment Company Limited ("Company") will be held at 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong on Saturday, 10 December 2005 at 9:30 a.m. for the following purpose:

ORDINARY RESOLUTION

THAT subject to and conditional upon (among other things) (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting approval for the listing of, and permission to deal in, all the units of GZI Real Estate Investment Trust ("**Units**") to be issued pursuant to the reorganisation deed to be entered into between, among others, the Company and GZI REIT (Holding) 2005 Company Limited and in connection with the Global Offering (as defined below); and (ii) the obligations of the underwriters under the underwriting agreements in respect of the Separate Listing (as defined below) becoming and remaining unconditional (including, if relevant, as a result of the waiver of any condition(s) by the joint global coordinators for and on behalf of, the underwriters) and not being terminated in accordance with the terms of such agreements or otherwise:

(a) the Separate Listing, which constitutes a major transaction (for the purposes of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) for the Company, and the documents or agreements in connection therewith or contemplated thereunder, be and is hereby approved by way of poll and the board of directors of the Company be and is hereby authorised on behalf of the Company to approve and implement the Separate Listing and all incidental matters and to take all actions in connection therewith or arising therefrom relating to the Separate Listing as it shall think fit;

(b) a distribution (the "**Distribution**") by the Company of a sum to be determined by the directors of the Company, being part of the amount standing to the credit of the Company's reserves, by way of special dividend to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company as at the close of business on 9 December 2005 (or such other date as the board of directors of the Company may determine) (the "**Record Date**") on the condition that the distribution is to be satisfied by:

(i) procuring the transfer to the Shareholders (other than the Relevant Overseas Shareholders (as defined below)) of such number of Units in the proportion of one Unit for every whole multiple of 400 Shares held by them as at the close of business on the Record Date, provided that fractional entitlements will be disregarded and not be transferred to such Shareholders and provided further that all costs due in respect of the transfer of such Units to the Shareholders (other than the Relevant Overseas Shareholders) shall be borne by the Company; or

(ii) cash payment (after deducting applicable taxes, stamp duty, Securities and Futures Commission of Hong Kong ("**SFC**") transaction levy, Stock Exchange trading fee and investor compensation levy, if any) to the Relevant Overseas Shareholders on the basis of the number of Units which the Relevant Overseas Shareholders would otherwise have been entitled to receive under the Distribution and the offer price of the Units (the "**Cash Payment**");

(c) the Company be and is hereby authorised to request the joint global coordinators to sell, as part of the international offering, the Units proposed to be transferred to the Shareholders (other than the Relevant Overseas Shareholders) pursuant to the Distribution and who elect to receive a Cash Payment in lieu of the whole of the Units proposed to be transferred to them on the terms of the option referred to in the circular to which this notice forms part ("**Option**") and that the Company be and is hereby authorised to pay to such Shareholders, in cash, the aggregate amount of such Cash Payments;

(d) the deed of right of first refusal (a copy of the final draft of which is tabled at the meeting, marked "A" and signed by the chairman of the meeting for the purpose of identification) be and is hereby approved and the board of directors of the Company be and is hereby authorised to take such steps as it may consider necessary or desirable to effect the deed of right of first refusal;

(e) the deed of indemnity (a copy of which is tabled at the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) be and is hereby approved and the board of directors of the Company be and is hereby authorised to take such steps as it may consider necessary or desirable to effect the deed of indemnity;

(f) the deed of undertaking to be given by the Company relating to certain tenancy services arrangements (a copy of which is tabled at the meeting marked "C" and signed by the chairman of the meeting for the purpose of identification) be and is hereby approved and the board of directors of the Company be and is hereby authorised to take such steps as it may consider necessary or desirable to effect the deed of undertaking; and

(g) the directors of the Company be and are hereby authorised to exercise all such powers and do all such acts as they consider necessary or desirable to give effect to the Separate Listing, the Distribution and the Option including, but without limitation, the grant of right of first refusal to GZI REIT."

"**Global Offering**" means the proposed offering of Units to the public in Hong Kong for subscription and the proposed offering of Units to certain professional, institutional and other investors (including Units proposed to be transferred to the Shareholders (other than the Relevant Overseas Shareholders) pursuant to the Distribution and who elect to exercise the Option and the Units to which the Relevant Overseas Shareholders would otherwise have been entitled to receive under the Distribution) for sale or subscription, as more particularly described in the circular dated 25 November 2005, subject to any variations or changes which are considered by the Company's directors not to be material.

"**Relevant Overseas Shareholders**" means shareholders of the Company whose addresses on the register of members of the Company were outside Hong Kong on the Record Date and have to be excluded from the Distribution and the Option on the account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place which the directors of the Company after reasonable enquiries consider such exclusion to be necessary or expedient.

"**Separate Listing**" means the separate listing of the Units to be issued pursuant to the reorganisation deed and to be issued in connection with the Global Offering on the main board of the Stock Exchange.

By order of the Board
Yu Tat Fung
Company Secretary

Hong Kong, 25 November 2005

Registered office:
24th Floor, Yue Xiu Building
160-174 Lockhart Road
Wanchai
Hong Kong

Notes:

(1) The register of members of the Company will be closed on 9 December 2005 and will be re-opened on 12 December 2005. In order to determine the entitlement to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Abacus Share Registrars Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 8 December 2005.

(2) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

(3) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders is present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.

(4) A form of proxy for use at the meeting is enclosed with the circular to shareholders of the Company.

(5) 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 of such power or authority, must be deposited with the Company's share registrar, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting thereof.

(6) Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting. If such member attends the meeting, however, his form of proxy will be deemed to have been revoked.

(7) The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.