



# GZI Real Estate Investment Trust

## 越秀房地產投資信託基金

(Stock Code: 405)



**2007**  
*Interim Report*

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## Performance Summary

	Six months ended 30 June	
	2007	2006
Distributions per unit (Note a)	HK\$0.1107	HK\$0.1033
Earnings per unit	HK\$0.1107	HK\$0.1033
Net assets value per unit attributable to Unitholders	HK\$3.335	HK\$3.144
Net tangible assets value per unit attributable to Unitholders	HK\$3.171	HK\$2.991
Offer price per unit upon listing	HK\$3.075	HK\$3.075
Closing price per unit as at 30 June	HK\$3.080	HK\$3.100
Yield per unit based on offer price	3.60%	3.36%
Yield per unit based on closing price	3.59%	3.33%
Number of units in issue	1,000,000,000 units	1,000,000,000 units
Highest premium of traded price to net assets attributable to Unitholders (Note b)	—	HK\$0.556
Highest discount of traded price to net assets attributable to Unitholders	HK\$0.335	HK\$0.294
Total assets	HK\$4,862 million	HK\$4,563 million
Total liabilities, excluding net assets attributable to Unitholders	HK\$1,527 million	HK\$1,419 million
Net assets attributable to Unitholders	HK\$3,335 million	HK\$3,144 million
Net tangible assets (net assets attributable to Unitholders minus goodwill)	HK\$3,171 million	HK\$2,991 million
Total borrowings as a percentage of gross assets (Note c)	26%	28%
Gross liabilities as a percentage of gross assets (Note d)	31%	31%
Net property income	HK\$172.189 million	HK\$161.176 million

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

Note b: The highest premium is calculated based on the highest traded price of HK\$3.310 on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) during the period from 1 January 2007 to 30 June 2007. The highest discount is calculated based on the lowest traded price of HK\$3.000 on the Stock Exchange during the period from 1 January 2007 to 30 June 2007. Since the highest traded price during the six months ended 30 June 2007 was HK\$3.310, which was lower than the net asset value as at 30 June 2007, no premium of the traded price to net asset value was presented for 30 June 2007.

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

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

# Report of the Chief Executive Officer



## To: GZI REIT Unitholders

On behalf of the management team of GZI REIT Asset Management Limited (“Manager”), manager of GZI Real Estate Investment Trust (“GZI REIT”), I am extremely pleased to present to you the interim results and operations of the first half of 2007.

## REVIEW OF OPERATIONS

Benefiting from the favourable economic conditions in the mainland of the People’s Republic of China (“China”) and the hard work of the management team, GZI REIT’s operation indicators recorded satisfactory performance in the first half of 2007, showing a positive trend of stable development.

For the period from 1 January 2007 to 30 June 2007 (“2007 Interim Period”), the total distributable income (“Total Distributable Income”) (as defined in the trust deed constituting GZI REIT referred to below) of GZI REIT amounted to HK\$110,735,000 and the distributable amount per unit is HK\$0.1107. Based on the closing price of HK\$3.08 per unit on 30 June 2007, the distribution rate was 3.59%, representing an increase of 7.16% when compared with the distribution of HK\$0.1033 per unit during the same period of the previous year.

As at 30 June 2007, GZI REIT owned four properties - White Horse Building Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units (“Properties”) with a total rentable area of approximately 160,145 square meters, of which approximately 156,886 square meters are currently leased. The overall occupancy rate of the Properties is 98.0%, 0.6% slightly lower than that of the same period last year.

For the 2007 Interim Period, GZI REIT recorded a total operating income of HK\$196,048,000, a 7.3% increase from the same period last year. Rent collection rate was 100%, and the rental of newly leased and renewed lease units also increased.

# Report of the Chief Executive Officer

## MARKET ANALYSIS

In the first half of the year, China's macro-economic conditions continued to improve, demonstrating a stable and fast development momentum, and the real estate development market continued its rapid growth. According to the National Bureau of Statistics of China, gross domestic product (GDP) of the first half of 2007 amounted to RMB10,676.8 billion with a year-on-year growth of 11.5%, representing a 0.5 percentage point increase over the same period last year. Total retail sales of social consumables amounted to RMB4,204.4 billion, representing a year-on-year growth of 15.4%, reaching a new high since 1997. Investment in the real estate development in the first half of 2007 throughout China was RMB988.7 billion, representing a year-on-year growth of 28.5% and a 4.3 percentage points increase from the same period last year. Property selling prices in medium and large cities in China in the first half of 2007 recorded a year-on-year growth of 7.1%, with selling prices of newly completed commodity properties increased by 7.4%.

Compared with the overall economic situation of China, economic development in the Guangdong Province and Guangzhou is faster and more stable. In the first half of 2007, Guangzhou's GDP amounted to approximately RMB319.801 billion, representing a year-on-year growth of 14%. Consumer price level increased 2.1% from the same period last year, which is lower than that of the country for the same period. Selling prices of newly completed commodity properties recorded a year-on-year growth of 7%, approximately 0.4 percentage point lower than the average increase rate of medium to large cities in the country. It is expected that Guangzhou's economy will remain strong in the second half of 2007 and the overall market trend will remain positive.

## BUSINESS OPERATING STRATEGIES

In view of the market situation, we have adopted pro-active and sound operating strategies in respect of the Properties owned by GZI REIT.

The White Horse Building Units is a core property of GZI REIT. We aim to ensure a stable operation of the White Horse Building through increased management efforts, strengthening its leading position in the national fashion wholesale industry. On the basis of proper day-to-day lease management, we increased our efforts on operational planning and advertising and promotion. And through enhanced communication and cooperation with trading unions of the fashion industry from different regions, we organized promotions in fashion industry hot spots such as Fujian and Zhejiang to attract major customers. We also arranged tenants to participate in fashion exhibitions in China, Hong Kong and other places, and used the atrium to hold catwalk fashion shows, order placing events, etc. to help our tenants to expand their markets. And we publish advertisements in trains and the media in China to increase the profile, promote the brand name and influence of the White Horse Building. In addition, we strive to upgrade the hardware standard of the building from time to time to improve business conditions and to create a stable business environment for our tenants.

Victory Plaza Units: with the respective expected completion of the tower office building and the civil air defense shelter on Tiyu West Road at the front gate in July and September this year, we take advantage of the impending great improvement in business environment to restructure the operating pattern of the mall. By actively facilitating the operations of our anchor tenant, GOME Electric Appliance, and by introducing banks, feature restaurants and other brand names to the Plaza, we aim at creating a high class mall that integrates leading electric appliance stores, restaurants, shops and entertainment. This will create a differential competition with other shopping malls in the Tianhe circle, making Victory Plaza even more competitive in the market.

Fortune Plaza Units and City Development Plaza Units: taking advantage of the underground railway properties concept, easy transport, comprehensive amenities and fine property management and services, we analyzed and adjusted the operation positioning of the properties, and positioned Fortune Plaza as a wealth centre of multi-national corporations, and the City Development Plaza as a business centre for large domestic corporations. We also cultivate tenant satisfactory level by implementing a good tenant relations management strategy and successfully retained all quality tenants. On the basis of a steady increase in occupancy rate during the 2007 Interim Period, we have made appropriate upward adjustments on the rental of renewal tenants and new tenants, gradually increasing the overall rental level of the plaza.

# Report of the Chief Executive Officer

## INVESTMENT AND FINANCIAL STRATEGIES

We will continue to implement active and prudent investment strategies to acquire properties with sustainable profit-making ability, including but not limited to the acquisition of existing and newly completed investment properties from Guangzhou Investment Company Limited (“GZI”) through the exercise of the right of first refusal, and the acquisition of retail, office and other commercial properties in developed economies based in the Pearl River Delta from other property developers.

Since the listing of GZI REIT, we have carried out market studies and analysis on certain commercial and office projects with a view to explore and assess acquisitions opportunities. At the same time, we are also paying close attention to a series of policies and measures introduced by the Chinese Government in the 2007 Interim Period which are intended to cool off the heated property market. As at the date of this interim report, detailed interpretations or guidelines of certain new policies and measures have not yet been issued by the Chinese Government, and we are not in a position to fully assess the impact of these new policies and measures to foreign investors (including GZI REIT) flexibility in structuring future acquisitions of properties in China. We will closely monitor the development of these new policies and measures and evaluate the impact on GZI REIT as the detailed interpretations and guidelines are issued and actively put into action the acquisition work of preliminary intention projects.

In terms of financial management, GZI REIT adopted prudent financial risk management measures to ensure a financially healthy investment portfolio. As at 30 June 2007, GZI REIT’s gearing ratio was a mere 26%, against the 45% ceiling stipulated by the Code on Real Estate Investment Trusts (“REIT Code”) issued by The Hong Kong Securities and Futures Commission (“SFC”), allowing a more flexible combination of funding sources to finance future acquisitions.

## PROSPECTS

Since 2006, the Chinese Government has implemented a series of macro-economic revision measures, increasing cooling efforts over the real estate industry to ensure a stable and healthy growth of the real estate industry in the long run.

GZI REIT is the first listed real estate investment trust in the world ever to invest in real estate in China. We will stand by our undertakings to increase operating efficiency through quality management, and will focus on improving property operations under the premise of ensuring the safe operation of listed assets in order to increase capital value, bringing continual, stable, growing and optional returns for our investors, and to achieve a sustainable growth and strengthening the competitiveness of GZI REIT through the implementation of acquisition strategies.

Looking towards the second half of 2007, it is expected the Chinese economy will continue its healthy growth, and the renminbi (“RMB”) will continue its upward trend. We will take advantage of the favourable external economic conditions to consistently implement our business operation and acquisition strategies, and will further reinforce internal management in order to increase operating efficiency and the corporate governance standard, achieving a stable growth of GZI REIT.

## APPRECIATION

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

**Liu Yongjie**

*Chief Executive Officer*

GZI REIT Asset Management Limited as manager of GZI Real Estate Investment Trust

Hong Kong, 21 August, 2007

## GZI REIT Profile

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

GZI REIT’s property portfolio (“Properties”) comprises four commercial properties located in Guangzhou and GZI REIT is the first publicly listed real estate investment trust in the world which invests in China.

## Total Distributable Income

The Total Distributable Income of GZI REIT to the unitholders of GZI REIT (“Unitholders”) for the 2007 Interim Period amounted to approximately HK\$110,735,000 (2006: HK\$103,375,000), representing distribution per unit of HK\$0.1107 (2006: HK\$0.1033).

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

### Distribution

The Trust Deed provides that GZI REIT will distribute not less than 90% of Total Distributable Income to the Unitholders. The Manager’s policy is to distribute to the Unitholders 100% of GZI REIT’s Total Distributable Income for each of the 2006, 2007 and 2008 financial years and thereafter at least 90% of Total Distributable Income in each financial year.

The Manager has resolved to declare an interim distribution to Unitholders for the 2007 Interim Period of HK\$0.1107 (2006: HK\$0.1033) per unit.

The 2007 interim distribution amounting to approximately HK\$110,700,000 (2006: HK\$103,375,000), in aggregate, will be effected on 30 October 2007 and be payable to the Unitholders whose names appear on the register of Unitholders on 29 October 2007.

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

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

# Management Discussion and Analysis

## BUSINESS REVIEW

The Properties held by GZI REIT are White Horse Building Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units. They have a total gross floor area of approximately 160,651 square meters and a total gross rentable area of approximately 160,145 square meters. As at 30 June 2007, the overall occupancy rate of the Properties was approximately 98.0%, total operating income for the 2007 Interim Period was approximately HK\$196,048,000. Total Distributable Income was approximately HK\$110,735,000, with distribution per unit of approximately HK\$0.1107. Based on the offer price of HK\$3.075 per unit as at the Listing Date, the distribution rate was 3.6%. Based on the closing price of HK\$3.08 per unit on 30 June 2007, the distribution rate was 3.59%, representing an increase of 7.16% when compared with the distribution of HK\$0.1033 per unit during the same period of the previous year. All business operations performed well with excellent momentum for continuous growth at a stable development pace.

### Occupancy Rate of Properties continued to stay at higher levels

As at 30 June 2007, the gross floor area of the Properties under lease amounted to approximately 156,886 square meters with the overall occupancy rate of approximately 98.0%, representing a slight decline of 0.6 percentage point compared to the same period of 2006, while the occupancy rate was approximately 99.3% for the White Horse Building Units, 99.6% for the Fortune Plaza Units, 98.7% for the City Development Plaza Units and 92.0% for the Victory Plaza Units. When compared with the same period of the previous year, the occupancy rates of the Fortune Plaza Units and the City Development Plaza Units increased by 1.5 and 1.7 percentage points respectively. After Guangzhou Xindaxin Co., Ltd. and its assignee had terminated their leases, approximately 13,321 square meters of the Victory Plaza Units become available for letting at the beginning of the 2007 Interim Period. Following the lease expansion of GOME by an additional space of approximately 9,448 square meters and the leasing of another 1,677 square meters during the 2007 Interim Period, only 2,196 square meters rentable area were left vacant resulting in a slight drop of occupancy by 7.6 percentage points at the Victory Plaza Units at the end of the 2007 Interim Period. At present, negotiation with a number of brand name clients is underway, it is expected there will be substantial improvement in the operating environment of the surrounding areas of the Victory Plaza Units in the second half of the year and the occupancy rate will rise steadily and return to a more favorable level.

The following table shows a comparison of occupancy rates in respect of all the Properties between the current and the same period of 2006:

Name of Property	Occupancy	Occupancy	Percentage
	Rate as at 30 June 2007	Rate as at 30 June 2006	Increase/ Decrease(-) compared to 30 June 2006
White Horse Building Units	99.3%	99.7%	-0.4
Fortune Plaza Units	99.6%	98.1%	1.5
City Development Plaza Units	98.7%	97.0%	1.7
Victory Plaza Units	92.0%	99.6%	-7.6
The Properties	98.0%	98.6%	-0.6



# Management Discussion and Analysis

## Rental income from Properties and rental levels grew steadily

During the 2007 Interim Period, the Properties earned a total rental income of approximately HK\$192,979,000, together with other operating income of approximately HK\$3,069,000, total operating income amounted to HK\$196,048,000, representing an increase of 7.3% over the same period of the previous year.

During the 2007 Interim Period, White Horse Building Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units accounted for 67.2%, 12.7%, 11.2% and 8.9% respectively of the total operating income from the Properties.

As at 30 June 2007, despite a slight reduction of approximately 955 square meters in leased area when compared with the same period of the previous year, the average rental level of the Properties increased steadily during the reporting period. When compared with the same period of last year, the average rental level of leased out units recorded an overall growth rate of approximately 2.4%, of which the largest percentage increase came from Victory Plaza Units which recorded an average rate of increase of approximately 10.1%, giving a strong indication of good potential for further increases, then followed by Fortune Plaza Units and City Development Plaza Units with the average rate of increase at approximately 6.4% and 4.0% respectively, while rental levels of White Horse Building Units were basically level.

No bad debt was recorded during the 2007 Interim Period.

The following table presents the performance of total operating income generated from the Properties during the 2007 Interim Period:

Name of Property	Total	Operating
	Operating	Income
	Income	Percentage of
	(HK\$ million)	Total
		Operating
		Income
White Horse Building Units	131.8	67.2%
Fortune Plaza Units	24.9	12.7%
City Development Plaza Units	21.9	11.2%
Victory Plaza Units	17.4	8.9%
	<hr/>	<hr/>
The Properties	196.0	100%
	<hr/> <hr/>	<hr/> <hr/>

# Management Discussion and Analysis

## Stable overall operations of Properties, enhanced project competitiveness

### **Fortune Plaza Units and City Development Plaza Units: greater renewal efforts, ensure stable operations**

In respect of the two specific office properties, Fortune Plaza Units and City Development Plaza Units, we focused on strengthening customer relationship management, in particular the management of substantial customers, by enhancing service quality, increasing customer satisfaction, retaining quality customers, optimizing tenant mix and enhancing the competitiveness of the specific property. Through stronger lease renewal management and steady growth of renewal rate, the average renewal rate of Fortune Plaza Units and City Development Plaza Units exceeded 80% during the first half of the year. Major customers such as HSBC, Citibank, Shenzhen Development Bank, PetroChina, Taikang Life, COSCO International Freight Co., Ltd. (COSFRE), AstraZeneca, etc. were all retained, none was lost. At the same time, lease renewals and new tenant rental levels of Fortune Plaza Units and City Development Plaza Units were favourable and grew by 8.2% and 5.7% respectively. Tenant mix was adjusted, the proportion of rental space occupied by foreign, Hong Kong, Macau and Taiwanese enterprises was as high as 70%, and the proportion of rental space occupied by the financial sector was approximately 40%. Major tenants of City Development Plaza Units were mainly large domestic listed companies, 60% of them rented space of over 1,000 square meters.

### **White Horse Building Units and Victory Plaza Units: create specialty features, enhance competitive edge**

Victory Plaza Units: Following the official launching of the “Number One Store of GOME Electric Appliance in the PRC” in May this year, Victory Plaza Units and other shopping malls in the Tianhe commercial circle were basically in a state of differential competition. In order to increase customer traffic at Victory Plaza, we actively worked with and provided support to the anchor tenant GOME Electric Appliance in their marketing promotional activities. At the same time, by combining with the new positioning requirements of Victory Plaza, target customers were specifically attracted. The office towers above the plaza were completed at the end of July this year, and the underground air defense shelter at Ti Yu Xi Road was expected to be completed by the end of September this year. By leveraging on this opportunistic timing, we have secured “rbt” (仙蹤林) and a Japanese beverage outlet successfully during the first half of the year, and currently we are in negotiation with a renowned foreign bank, a coffee shop chain and a daily necessities store. Through realignment, the specialty features of the Plaza and its power of influence will be steadily enhanced.

White Horse Building Units: In order to consolidate the leading position of White Horse Building Units in the wholesale clothing market of China and to relieve the competition pressure arising from the increased supply of shop spaces in the peripheral areas, we have increased the number of exchange meetings with the business associations and merchants of the clothing industry from all parts of China, and numerous arrangements were organized for merchants of White Horse Building Units to attend fashion exhibitions held in both Mainland and Hong Kong assisting them in the development of sales channels. At the same time, we also contact enterprises of emerging fashion brands in all parts of China proactively to create an ample reserve pool of customer resources. For internal reforms, we actively pursued to improving the hardware of White Horse Building Units with refurbishment and renovation of certain floors of the building, renovation of the electrical cable system and the building’s signage system completed one after the other during the first half of the year. With obvious improvement in the business environment, the competitive edge of White Horse Building Units was further enhanced.

# Management Discussion and Analysis

## Enhanced safety management and prevent property operational risk

To protect the assets and to ensure proper implementation of the function of property management, we particularly emphasized on the monitoring and management of front line property operators (property management and leasing agent service providers). We are conducting and will continue to conduct quarterly evaluation on the fire safety management of the Properties together with our property consultant Jones Lang LaSalle and undertake appropriate remedial actions against any problems so identified. And from June onwards, we carried out detailed inspection and testing on all equipment and facilities of the Properties, in order to provide the basis for evaluating and formulating the next phase of renewal and reform plans for these equipment and facilities. Besides, we have also carried out regular or irregular inspections on the Properties and to strengthen monitoring and communication in order to ensure front line property operators have complied with requirements in the relevant contract and the management requirements of GZI REIT in property management. Also, front line property operator will conduct fire drills and other contingency drills from time to time, organize enhanced training for property management staff and tenants, introduce preventive measures against various types of property operational risks and improve the capabilities to handle various types of unexpected incidents.

## Enhance management efficiency and reduce operational cost

Guangzhou Yicheng Property Management Ltd. (“Yicheng Ltd.”) and White Horse Property Management Company Ltd. (“White Horse Ltd.”) are the front line property operators of GZI REIT. Yicheng Ltd. is responsible for the management of three properties, namely, Fortune Plaza, City Development Plaza Units and Victory Plaza Units. White Horse Ltd. is responsible for the management of White Horse Building Units. The management of Yicheng Ltd. and White Horse Ltd. merged in June 2007. The integration would not affect Yicheng Ltd. and White Horse Ltd. in respect of their separate independent legal person status, business scope and existing legal relationship with GZI REIT. After the integration, the manager of the GZI REIT is in a more favorable position to strengthen the monitoring of reassigning functions of top line property operators and to increase management efficiency. At the same time, after the merger, by pooling together the strengths of quality personnel and corporate governance of both Yicheng Ltd. and White Horse Ltd., it favours the improvement of their own operational management standards, enhancement of property management quality and comprehensive competitiveness. This will have a positive impact on the long term and stable development of GZI REIT in future and also in the best interest of the GZI REIT Unitholders.

## Future Prospects

Looking forward to the second half of the year, we believe the overall domestic economic environment in China will continue to flourish, sustaining a rapid and stable development pace. It is expected the office space in Guangzhou will enter the phase of peak supply, with more intense market competition and hence certain pressure on the operation of office properties. Meanwhile, the rapid and strong growth of the financial, trade and consultancy services industries, together with the large and increasing demand from foreign enterprises and the small and medium enterprises, the leasing market for office space will gain solid support. Underpinned by the growth of purchasing power and consumer demand, good development opportunities in retail and wholesale shopping malls are envisaged.

Regarding the two office properties, Fortune Plaza Units and City Development Plaza Units, we are fully aware of the keen competition from newly built specific office properties within the same neighbourhood areas. By improving and enhancing property management and service quality continuously to retain quality customers and by actively acquiring new customers through various channels to optimize the mix of customers, competitiveness will be enhanced.

# Management Discussion and Analysis

On stabilizing the basis of office operations, we shall focus on the two commercial projects of White Horse Building and Victory Plaza. The key focus of work on White Horse Building Units is to put in greater publicity and promotional efforts to attract more quality new tenants, strengthen customer relationship management, foster market research, closely monitor market operational trends and maintain operational stability of the shopping malls. Victory Plaza must take advantage of the opportunistic timing upon completion of the office towers and the underground air defense shelter at Ti Yu Xi Road in the second half of the year when road surface traffic conditions will improve. For existing vacant units, efforts will be focused on attracting foreign banks, specialty food and beverage outlets, branded merchandise shops or franchised shops in order to increase the occupancy rate and to enhance the specialty business features of the properties.

While we maintain stable operations of existing projects, we also pursue positive and careful investment strategies to foster progress in acquiring and listing of certain specific properties under study for injecting new energies for the growth of GZI REIT.

## FINANCIAL REVIEW

### Distribution Per Unit

Distribution to Unitholders for the 2007 Interim Period of HK\$0.1107 (2006: HK\$0.1033) per unit represents a yield of approximately 3.59% (2006: 3.33%) per unit based on the closing price of HK\$3.08 per unit as at 30 June 2007. This represents an annualized distribution yield of 7.19%.

Using the initial public offer (“IPO”) price of HK\$3.075 per unit, the distribution per unit represents a yield of 3.6%.

### Unit Activity

Since the listing of GZI REIT on 21 December 2005, a total of 1,000,000,000 units were issued. The closing price as at 30 June 2007 was HK\$3.08 per unit which represents a slight increase compared to the IPO price of HK\$3.075 per unit.

GZI REIT’s unit price reached a high of HK\$3.31 and a low of approximately HK\$3.00 during the 2007 Interim Period. The volume transacted during the 2007 Interim Period was 334,309,088 units, equivalent to an average of 2,762,885 units daily.

### Asset Value

The net assets attributable to the Unitholders per unit as at 30 June 2007 was approximately HK\$3.335 (31 December 2006: HK\$3.20), which represents an increase of 4.2%. The total net tangible assets attributable to Unitholders per unit as at 30 June 2007 was approximately HK\$3.171 (31 December 2006: HK\$3.041), which represents an increase value per unit of 4.3%.

# Management Discussion and Analysis

## Financial Results

Both rental income and net property income were higher than the interim period of 2006. The following is a summary of GZI REIT's financial results during the 2007 Interim Period:

	Six months ended 30 June		% of Increase/ (decrease)
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	
<b>Gross income</b>	196,048	182,741	7.3%
Leasing agents' fee	(6,524)	(6,097)	7.0%
Property related taxes	(15,309)	(14,137)	8.3%
Other property expenses (Note 1)	(2,026)	(1,331)	52.2%
<b>Total property operating expenses</b>	(23,859)	(21,565)	10.6%
<b>Net property income</b>	172,189	161,176	6.8%
Withholding tax	(18,758)	(17,477)	7.3%
Manager's fees	(11,883)	(11,445)	3.8%
Trustee's fees	(702)	(664)	5.7%
Other trust expenses (Note 2)	(7,874)	(5,640)	39.6%
Total non-property expenses	(39,217)	(35,226)	11.3%
<b>Profit before finance costs, interest income and tax</b>	132,972	125,950	5.6%
Interest income	3,657	2,257	62.0%
Finance costs - excluding amounts attributable to Unitholders	(25,894)	(24,832)	4.3%
<b>Profit after tax before transactions with Unitholders</b>	110,735	103,375	7.1%

Note 1 Other property expenses include valuation fee, insurance premium, depreciation, etc.

Note 2 Other trust expenses include audit fees, printing charges, unit registrar's fees, listing fees, legal advisory, company secretarial fees, etc.

Profit after tax before transactions with Unitholders amounted to approximately HK\$110,735,000 (2006: HK\$103,375,000), which represents 7.1% increase.

Gross revenue and net property income were approximately HK\$196,048,000 (2006: HK\$182,741,000) and approximately HK\$172,189,000 (2006: HK\$161,176,000) respectively, which represents an increase of 7.3% and 6.8% respectively while comparing with 2006.

Property operating expenses increased by 10.6% as compared with 2006.

Other trust expenses increased by approximately HK\$2,234,000 as compared with 2006. This is mainly attributable to the increase in unit registrar's fees and the increase in professional fees for services rendered by legal advisers.

# Management Discussion and Analysis

## LIST OF REAL ESTATE HELD BY GZI REIT

Information on the Properties is summarized as follows:

<b>The Properties</b>	<b>Gross Rentable area as at 30 June 2007 square metres</b>	<b>Valuation as at 31 December 2006 HK\$'000</b>
White Horse Building Units	50,129	2,696,327
Fortune Plaza Units	40,356	581,865
City Development Plaza Units	42,398	410,222
Victory Plaza Units	27,262	551,657
The Properties	160,145	4,240,071

## CAPITAL STRUCTURE

The capital management policy of GZI REIT is to achieve optimal debt profile. GZI REIT, through its special purpose vehicles, entered into a facility agreement with a syndicate of banks for a US\$165 million three-year term loan facility. Total borrowings (excluding debt-related expenses) as a percentage of value of gross assets is 26% whilst total liabilities (excluding debt-related expenses) as a percentage of value of gross assets is 31%. The bank borrowings are secured and the security package includes, among others, a registered mortgage over each of the Properties, assignment of rental income and all other proceeds arising from each of the Properties and of all tenancy agreements relating to each of the Properties and a legal mortgage over the shares of the special purpose vehicles holding the Properties companies.

## REVIEW OF FINANCIAL RESULTS

The results of GZI REIT for the 2007 Interim Period have been reviewed by the Disclosures Committee and Audit Committee of the Manager and by the GZI REIT's auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

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

During the 2007 Interim Period, there was no repurchase, sale or redemption of units of GZI REIT by GZI REIT or any of its subsidiaries.

## SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

GZI REIT did not enter into any real estate sale and purchase during the 2007 Interim Period.

## EMPLOYEES

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

# Management Discussion and Analysis

## CORPORATE GOVERNANCE

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

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

During the 2007 Interim Period, the Manager has complied with the provisions of the Compliance Manual for its management of GZI REIT.

## NEW UNITS ISSUED

There were no new units issued during the 2007 Interim Period.

## CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from Tuesday, 23 October 2007 to Monday, 29 October 2007, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with GZI REIT’s unit registrar, Tricor Investor Services Limited, of 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Monday, 22 October 2007.

## Connected Party Transactions

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

### The Manager and Significant Holder Group

Set out below is the information in respect of the connected party transactions involving GZI REIT and its connected persons:

#### Leasing Transactions

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

Tenant	Location of unit	Relationship with GZI REIT	GFA (sq.m.)	Lease commencement date	Monthly rent (RMB)	Monthly rent per sq.m. (RMB)	Rent free period (days)	Term (years)	Rent collected during 2007 Interim Period (HKD) <sup>3</sup>
Yicheng <sup>1</sup> Guangzhou City Construction & Development Xingye Property Agent Ltd (“Xingye”) <sup>2</sup>	1st storey	an associate of the Manager	97.0	1 May, 2007	485	5	0	3	2,951
Xingye <sup>2</sup>	2nd storey	an associate of the Manager	881.2	1 Jan, 2006	118,955	135	0	3	723,864
GZI	16th storey	a significant holder	639.92	1 Jan, 2006	45,333	70	0	3	275,860
Guangzhou office of Yue Xiu	16th storey	a significant holder	1,060.5	1 Jan, 2005	95,444	90	0	3	580,795
			46.1	1 Jan, 2005	4,150	90	0	3	25,254
Total:									1,608,724

1. The original lease of Yicheng was due on 30 April 2007 and was renewed according to the rent level of the original lease.
2. These leases are subject to certain right to early termination exercisable by Full Estates if higher rates for the leased units were offered by prospective tenants and such offer not matched by Xingye.
3. Conversion from RMB at the rate of RMB0.9860 to HKD1.00.

#### Property Management Agreements

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



## Connected Party Transactions

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

The owners committees of Fortune Plaza and City Development Plaza (each acting for and on behalf of all the owners and tenants of Fortune Plaza and City Development Plaza respectively) appointed Yicheng to manage the common areas in Fortune Plaza and City Development Plaza respectively. The agreement for Fortune Plaza was entered into on 1 July, 2005 and is for a duration of three years from 1 July, 2005 to 30 June, 2008. The agreement for City Development Plaza expired on 18 July 2007 and was re-entered into on 19 July, 2007 for a duration of three year from 19, July, 2007 to 18 July, 2010. Under these agreements, Yicheng is entitled to collect a monthly property management fee charged at the rate of RMB25 per sq.m. for the office portion of and RMB35 per sq.m. for the commercial portion of Fortune Plaza’s GFA, and City Development Plaza’s GFA respectively.

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

### Tenancy Services Agreements

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

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

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

During the 2007 Interim Period, the aggregate amount of fees paid/payable by GZI REIT to Yicheng and White Horse Property Management Company under these tenancy services agreements totalled approximately HK\$6,524,000.

# Connected Party Transactions

## Trade Mark Licence Agreements

Six licence agreements, each dated 7 December, 2005, have been entered into between Partat and White Horse Ltd. pursuant to which White Horse Ltd. has granted Partat the exclusive right to use six of its registered trademarks of different classes in the China until 31 December, 2006 in accordance with the terms of the licence agreements for a nominal fee of RMB1.00 with the right to extend, subject to certain conditions, the term of such licences. Each of these licence agreements has been extended, for a nominal fee of RMB 1.00, for a period of between 9 to 10 years and will expire between 27 November 2016 and 30 January 2017.

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

## Waiver from Strict Compliance

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

## Renovation of Levels 8 and 9 of White Horse Units

Guangzhou City Construction & Development Decoration Limited (“GCCD Decoration”), a 98.62% indirectly-owned subsidiary of GZI and one of the 5 bidders for the renovation works, was awarded the renovation contract for certain renovation works of Level 8 and 9 of the White Horse Building Units by Guangzhou Construction Works Dealing Building Centre on 24 January, 2006 through a transparent tender process for certain renovation works of Level 8 and 9 of the White Horse Building Units.

The amount payable by Partat to GCCD Decoration pursuant to the terms of the renovation contract dated 26 January, 2006 was RMB 414,148.08 (i.e., approximately HK\$420,028.48), representing the difference between the total amount of all renovation works (i.e., RMB 5,176,851.05 (i.e., approximately HK\$5,250,356.03)) and the sums directly payable by Partat to the two independent sub-contractors (i.e. RMB 4,762,702.97 (i.e., approximately HK\$4,830,327.56) deducting.

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

# Connected Party Transactions

## HSBC Group\*

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

## Leasing Transactions

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

Tenant	Location of unit	GFA (sq.m.)	Lease commencement date	Monthly rent (RMB)	Monthly rent per sq.m. (RMB)	Rent free period (days)	Term (years)	Rent collected during 2007 Interim Period (HKD) <sup>1</sup>
HSBC Software Development (Guangdong) Limited	4th storey	4,275.1	16 Feb, 2005	354,833	83	60	3	2,065,489
	5th storey	4,275.1	1 May, 2005	354,833	83	90	2.25	2,065,489
	3rd storey	2,000	1 Dec, 2006	166,000	83	60	4.2	1,034,857
							Total:	5,165,835

1. Conversion from RMB at the rate of RMB 0.9860 to HKD1.00.

On 31 January, 2007 HSBC Software Development (Guangdong) Limited entered into a lease with Moon King, in respect of the 4th and 5th storeys of Fortune Plaza, renewing the existing term for another 3 years commencing 1 February, 2008 at a monthly rent of RMB 745,150 for the first year, RMB 782,428 for the second year and RMB 821,504 for the third year.

## Corporate Finance Transactions

The SPVs (as borrowers) and GZI REIT Holding 2005 Limited (“REIT Holdco”) (as guarantor) entered into a facility agreement with certain lending banks on 7 December, 2005 for a three year floating rate term loan facility of US\$165 million to be drawn on the Listing Date. To secure the SPVs’ obligations under the loan on a pari passu and pro rata basis, a security package, including registered mortgage over each Property and the SPV shares, assignment of rental income and all other proceeds arising from each of the Property and of all tenancy agreements relating to the Properties, has been granted in favour of a security trustee to hold on behalf of the lending banks. HSBC was one of the lending banks and acted as the agent and security agent of the lending banks as at 30 June 2007. The amount advanced by HSBC under the facility of US\$63,900,000 remained outstanding.

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

The SPVs’ obligations under the swap agreements are secured, pari passu and pro rata, on the security package described above. They have also granted guarantees in favour of the lending banks (as swap providers) to secure their obligations under the swap agreement. During the 2007 Interim Period, interest under the facility agreement in the amount of approximately HK\$8,340,000 were payable by GZI REIT to HSBC during the 2007 Interim Period.

## Ordinary Banking Services

REIT Holdco, Partat, Keen Ocean, Full Estates and Moon King has opened interest bearing accounts with HSBC for deposits within the 2007 Interim Period at arm’s length and on commercial terms.

# Connected Party Transactions

## Waiver from Strict Compliance

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

## Confirmation by the Audit Committee and the INEDs

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

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

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

Both the Manager and the Trustee confirm that there is no corporate finance transaction and other connected transaction (save and except for those disclosed hereinabove) with the HSBC Group during the 2007 Interim Period.

## Manager's Fees

During the 2007 Interim Period, the aggregate amount of fees payable by GZI REIT to the Manager under the Trust Deed was approximately HK\$11,883,000.

## Trustee's Fees

During the 2007 Interim Period, the aggregate amount of fees payable by GZI REIT to the Trustee under the Trust Deed was approximately HK\$702,000.

## Principal Valuer's Fees

During the 2007 Interim Period, the aggregate amount of fees payable by GZI REIT to the Valuer for the preparation of a valuation report of the Properties was HK\$100,000.

## Connected Party Transactions

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

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

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

Interests and Short Positions in the Units:

Name of Director	Nature of Interest	As at 1 January, 2007		As at 30 June, 2007		% Change in Holdings
		Beneficial interests in Units	Approximate % of interest	Beneficial interests in Units	Approximate % of interest	
Mr Liang Ningguang <sup>1</sup>	—	Nil	—	Nil	—	—
Mr Liu Yongjie <sup>2</sup>	—	Nil	—	Nil	—	—
Mr Liang Youpan	—	Nil	—	Nil	—	—
Mr Chan Chi On, Derek	—	Nil	—	Nil	—	—
Mr Lee Kwan Hung, Eddie	—	Nil	—	Nil	—	—
Mr Chan Chi Fai, Brian	—	Nil	—	Nil	—	—

- 1 Mr. Liang Ningguang is also a director of Yue Xiu and therefore Yue Xiu is deemed to be an associate of Mr. Liang under Rule 8.1 of the REIT Code. Accordingly, the holdings of Yue Xiu as disclosed in “Holdings of Significant Holders” are deemed to be the holdings of Mr. Liang.
- 2 Mr. Liu is also the Chief Executive Officer of the Manager.

### HOLDINGS OF SIGNIFICANT HOLDERS

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

#### Long position in the Units:

Name of Substantial Unitholder	Nature of Interest	As at 1 January, 2007		As at 30 June, 2007		% Change of interest
		Interests in Units	Approximate % of interest	Interests in Units	Approximate % of interest	
Yue Xiu Enterprises (Holdings) Limited (“YXE”) <sup>1</sup>	Beneficial	27,320	0%	27,320	0%	—
	Deemed	321,326,760	32.13%	325,959,760	32.60%	0.47%
	Total	321,354,080	32.14%	325,987,080	32.60%	0.46%
GZI <sup>2</sup>	Beneficial	—	—	—	—	—
	Deemed	313,280,495	31.32%	313,280,495	31.32%	0.00%
	Total	313,280,495	31.32%	313,280,495	31.32%	0.00%
Dragon Yield Holdings Limited (“Dragon Yield”)	Beneficial	313,280,495	31.32%	313,280,495	31.32%	0.00%
	Deemed	—	—	—	—	—
	Total	313,280,495	31.32%	313,280,495	31.32%	0.00%

## Connected Party Transactions

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

Name of Controlled Corporation	Name of Controlling Shareholder	% Control	Direct interest (Y/N)	Number of Shares	
				Long Position	Short Position
Excellence Enterprises Co., Ltd.	Yue Xiu	100.0	N	321,215,530	Nil
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	N	313,280,495	Nil
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.0	Y	5,698,282	—
Guangzhou Investment Company Limited	Bosworth International Limited	34.98	N	313,280,495	Nil
Dragon Yield	GZI	100.0	Y	313,280,495	Nil
Sun Peak Enterprises Ltd.	Excellence Enterprises Co., Ltd.	100.0	N	1,414,207	—
Novena Pacific Limited	Sun Peak Enterprises Ltd.	100.0	Y	1,414,207	—
Shine Wah Worldwide Limited	Excellence Enterprises Co., Ltd.	100.0	N	395,122	—
Morrison Pacific Limited	Shine Wah Worldwide Limited	100.0	Y	395,122	—
Perfect Goal Development Co., Ltd.	Excellence Enterprises Co., Ltd.	100.0	N	339,342	—
Greenwood Pacific Limited	Perfect Goal Development	100.0	Y	339,342	—
Seaport Development Limited	Excellence Enterprises Co., Ltd.	100.0	N	88,082	—
Goldstock International Limited	Seaport Development Limited	100.0	Y	88,082	—
Yue Xiu Finance Company Limited	Yue Xiu	100.0	Y	4,744,230	—

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

# Connected Party Transactions

## HOLDINGS OF OTHER CONNECTED PERSONS

### Senior Executives of the Manager

The following senior executives of the Manager, being connected persons of GZI REIT, held the following interest in the Units:

Name of Senior Executive	Nature of interest	As at 1 January, 2007		As at 30 June, 2007		% Change of interest
		Interests in Units	Approximate % of interest	Interests in Units	Approximate % of interest	
Ms. Ko Yung Lai, Jackie <sup>1</sup>	Personal	8,125	0%	8,125	0%	—
Mr. Cheng Jiuzhou	Personal	480	0%	480	0%	—
Mr. Ip Wing Wah	Personal	1,900	0%	1,900	0%	—
Ms. Ou Hai Jing <sup>2</sup>	Personal	1,000	0%	1,000	0%	—

1. Ms. Ko Yung Lai, Jackie resigned as Chief Financial Officer of the Manager on 12 July 2007.

2. Ms. Ou Hai Jing was appointed as Head of Finance and Investment of the Manager on 12 July 2007.

Save as disclosed above, the Manager is not aware of any connected persons of GZI REIT, including the Trustee and Colliers International (Hong Kong) Ltd. holding any units as at 30 June, 2007.

### Unit Options

At no time during the 2007 Interim Period was GZI REIT or any of its controlled entities a party to any arrangements which enable the Directors of the Manager (including, their spouses and children under 18 years of age) to acquire benefits by means of acquisition of Units or any equity derivatives in GZI REIT or any other body corporate.

# Report of the Auditor



羅兵咸永道會計師事務所

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

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GZI REIT ASSET MANAGEMENT LIMITED (the "MANAGER")

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

### INTRODUCTION

We have reviewed the interim financial information set out on pages 24 to 44, which comprises the condensed consolidated balance sheet of GZI Real Estate Investment Trust ("GZI REIT") and its subsidiaries as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Manager are responsible for the preparation and fair presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 21 August 2007



# Condensed Consolidated Interim Balance Sheet

As at 30 June 2007

	Note	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	4	9,350	9,775
Investment properties	5	4,393,387	4,240,071
Deferred assets	6	16,857	9,610
Goodwill	7	163,952	158,290
		<u>4,583,546</u>	<u>4,417,746</u>
<b>Current assets</b>			
Rental receivables	8	—	19
Prepayments, deposits and other receivables	8	5,592	5,829
Cash and cash equivalents	9	272,488	253,846
		<u>278,080</u>	<u>259,694</u>
<b>Total assets</b>		<u>4,861,626</u>	<u>4,677,440</u>
<b>Current liabilities</b>			
Rental deposits, current portion	11	13,678	9,919
Receipts in advance	11	18,371	12,721
Accruals and other payables	11	34,634	23,939
Due to related companies	21	12,993	22,144
		<u>79,676</u>	<u>68,723</u>
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>			
Rental deposits, non-current portion	11	65,064	64,963
Bank borrowings, secured	13	1,284,543	1,266,469
Derivative financial instruments	12	97,803	77,578
		<u>1,447,410</u>	<u>1,409,010</u>
<b>Total liabilities, excluding net assets attributable to Unitholders</b>		<u>1,527,086</u>	<u>1,477,733</u>
Net assets attributable to Unitholders	14	<u>3,334,540</u>	<u>3,199,707</u>
<b>Total liabilities</b>		<u>4,861,626</u>	<u>4,677,440</u>
<b>Net assets</b>		<u>—</u>	<u>—</u>

# Condensed Consolidated Interim Balance Sheet

As at 30 June 2007

	Note	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
<b>Equity</b>			
Hedging reserve	10	(21,592)	(35,608)
Retained earnings		21,592	35,608
<b>Total equity</b>		<u>—</u>	<u>—</u>
Units in issue ('000)		<u>1,000,000</u>	<u>1,000,000</u>
Net assets attributable to Unitholders per unit		<u>HK\$3.335</u>	<u>HK\$3.200</u>

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

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

**Liang Ningguang**  
Director

**Liu Yongjie**  
Director

# Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 (Unaudited) HK\$'000	Six months ended 30 June 2006 (Unaudited) HK\$'000
Revenue – rental income		196,048	182,741
Operating expenses	15	(63,076)	(56,791)
Operating profit		132,972	125,950
Interest income from bank deposits		3,657	2,257
Finance costs – excluding amounts attributable to Unitholders	17	(25,894)	(24,832)
Profit before tax and transactions with Unitholders		110,735	103,375
Income tax expenses	18	—	—
Profit after tax before transactions with Unitholders		110,735	103,375
Finance costs attributable to Unitholders (i)		(124,751)	(128,311)
Result for the period		(14,016)	(24,936)

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

Note:

- (i) In accordance with the Trust Deed dated 7 December 2005 (“Trust Deed”), GZI REIT is required to distribute to Unitholders not less than 90% distributable income for each financial period. GZI REIT has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash dividends and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of GZI REIT less any liabilities, in accordance with Unitholders’ proportionate interests in GZI REIT at the date of the termination of GZI REIT. The Unitholders’ funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32: Financial Instruments: Disclosure and Presentation. Consistent with Unitholders’ funds being classified as a financial liability, the distributions to Unitholders are part of finance costs which are recognised in the income statement. The classification does not have an impact on the net assets attributable to the Unitholders. It only affects how Unitholders’ funds are disclosed in the balance sheet and how distributions are disclosed in the income statement. Distributable income is determined in the Distribution Statement on page 28.
- (ii) Earnings per unit based upon profit after tax before transactions with Unitholders and the average number of units in issue is presented in note 19.

# Condensed Consolidated Interim Statement Of Changes In Equity

For the six months ended 30 June 2007

	<b>Hedging reserve (Note 10) HK\$'000</b>	<b>Retained earnings/(deficit) HK\$'000</b>	<b>Total equity HK\$'000</b>
Balance at 1 January 2006	(11,281)	11,281	—
Change in fair value of cash flow hedges	24,936	—	24,936
Result for the period	—	(24,936)	(24,936)
	<u>13,655</u>	<u>(13,655)</u>	<u>—</u>
Balance at 30 June 2006	<u>13,655</u>	<u>(13,655)</u>	<u>—</u>
Balance at 1 January 2007	(35,608)	35,608	—
Change in fair value of cash flow hedges	14,016	—	14,016
Result for the period	—	(14,016)	(14,016)
	<u>(21,592)</u>	<u>21,592</u>	<u>—</u>
Balance at 30 June 2007	<u>(21,592)</u>	<u>21,592</u>	<u>—</u>

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

# Distribution Statement

For the six months ended 30 June 2007

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Profit after tax before transactions with Unitholders	110,735	103,375
Adjustments for the total distributable income (i)	—	—
	<hr/>	<hr/>
Total distributable income for the period	110,735	103,375
Distributable amount at 1 January	103,426	40,543
Distribution paid during the period (ii)	(103,400)	—
	<hr/>	<hr/>
Distributable amount at 30 June (iii)	<u>110,761</u>	<u>143,918</u>
	<hr/>	<hr/>
Distribution per unit, proposed	<u>HK\$0.1107</u>	<u>HK\$0.1438</u>

Note:

- (i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit after tax before transactions with Unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the income statement for the relevant year or period. There are no such adjustments during the six months ended 30 June 2007 and 2006.
- (ii) A distribution of HK\$0.1034 per Unit, totalling HK\$103,400,000, was paid to Unitholders on 23 May 2007.
- (iii) Pursuant to the terms of Trust Deed, GZI REIT's first distribution covered the period from 21 December 2005 (GZI REIT's listing date) to 30 June 2006. Accordingly, distributable amount as at 30 June 2006 included the distributable amount of HK\$40,543,000 and HK\$103,375,000 for the period from 7 December 2005 (establishment date of GZI REIT) to 31 December 2005 and six-month period ended 30 June 2006 respectively to the Unitholders of GZI REIT.

# Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2007

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Net cash generated from operating activities:		
Net cash generated from operations	<b>134,104</b>	163,219
Interest paid on bank borrowings	<b>(21,674)</b>	(20,849)
	<hr/>	<hr/>
Cash flows from operating activities – net	<b>112,430</b>	142,370
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net cash used in investing activities		
Purchase of property, plant and equipment	<b>(365)</b>	—
Purchase of investment properties	<b>(1,634)</b>	—
Decrease in an amount due to a related company	—	(55,000)
Interest received	<b>3,657</b>	2,257
	<hr/>	<hr/>
Cash flows from investing activities – net	<b>1,658</b>	(52,743)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net cash used in financing activities		
Distribution paid	<b>(103,400)</b>	—
	<hr/>	<hr/>
Cash flows from financing activities – net	<b>(103,400)</b>	—
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Increase in cash and cash equivalents	<b>10,688</b>	89,627
Exchange difference	<b>7,954</b>	—
Cash and cash equivalents at the beginning of the period	<b>253,846</b>	235,917
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>272,488</b>	325,544
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

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

# Notes to the Condensed Consolidated Interim Financial Information

## 1 GENERAL INFORMATION

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

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

GZI REIT was listed on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information has been approved for issue by the Board of Directors of the Manager on 21 August 2007.

## 2 BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with Hong Kong Accounting Standard 34, ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants. The interim condensed financial report should be read in conjunction with the audited financial statements for the year ended 31 December 2006.

## 3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those set out in the audited financial statements for the year ended 31 December 2006 except as described below.

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

The following new standards, amendments to standards and interpretations are mandatory for financial period ending 30 June 2007.

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

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

# Notes to the Condensed Consolidated Interim Financial Information

## 3 ACCOUNTING POLICIES (Continued)

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKFRS 8, Operating Segments, effective for annual periods beginning on or after 1 January 2009;
- HK(IFRIC)-Int 12, Service Concession Arrangements, effective for annual periods beginning on or after 1 January 2008;
- HKAS 23 (Revised), Borrowing Costs, effective for annual periods beginning on or after 1 January 2009.

The Group will adopt the above when they become effective. The Manager does not expect the adoption of the above has material impact to the consolidated financial statements of the Group.

## 4 PROPERTY, PLANT AND EQUIPMENT – GROUP

	<b>Construction in progress</b> HK\$'000	<b>Machinery and tools</b> HK\$'000	<b>Total</b> HK\$'000
For the six months ended 30 June 2006			
Opening net book amount	—	3,395	3,395
Addition	8,610	—	8,610
Depreciation	—	(341)	(341)
Closing net book amount	<u>8,610</u>	<u>3,054</u>	<u>11,664</u>
At 30 June 2006			
Cost	8,610	3,415	12,025
Accumulated depreciation	—	(361)	(361)
Net book amount	<u>8,610</u>	<u>3,054</u>	<u>11,664</u>
For the six months ended 30 June 2007			
Opening net book amount	—	9,775	9,775
Addition	—	365	365
Depreciation	—	(1,122)	(1,122)
Exchange difference	—	332	332
Closing net book amount	<u>—</u>	<u>9,350</u>	<u>9,350</u>
At 30 June 2007			
Cost	—	12,101	12,101
Accumulated depreciation	—	(2,751)	(2,751)
Net book amount	<u>—</u>	<u>9,350</u>	<u>9,350</u>



# Notes to the Condensed Consolidated Interim Financial Information

## 5 INVESTMENT PROPERTIES – GROUP

	Six months ended 30 June 2007 (Unaudited) HK\$'000	Six months ended 30 June 2006 (Unaudited) HK\$'000
Beginning of the period	4,240,071	4,053,800
Addition	1,634	—
Exchange difference	151,682	—
End of the period	<u>4,393,387</u>	<u>4,053,800</u>

The investment properties are located in China and held on land use rights of 40 years to 50 years, expiring in 2047 through 2055. The directors of the Manager consider that there is no material change in the fair value of these investment properties from 1 January 2007 to 30 June 2007.

In the condensed consolidated interim income statement, direct operating expenses include HK\$657,690 (2006: HK\$342,646) relating to investment properties that were vacant.

As at 30 June 2007, all investment properties were pledged as collateral for the Group's bank borrowings (Note 13).

## 6 DEFERRED ASSETS – GROUP

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

# Notes to the Condensed Consolidated Interim Financial Information

## 7 GOODWILL – GROUP

	HK\$'000
For the period ended 30 June 2006	
Opening and closing net book value	152,917
At 30 June 2006	
Cost	152,917
Accumulated impairment	—
	<u>152,917</u>
<b>For the period ended 30 June 2007</b>	
<b>Opening net book value</b>	<b>158,290</b>
<b>Exchange difference</b>	<b>5,662</b>
<b>Closing net book value</b>	<b><u>163,952</u></b>
<b>At 30 June 2007</b>	
<b>Cost</b>	<b>163,952</b>
<b>Accumulated impairment</b>	<b>—</b>
	<b><u>163,952</u></b>

### Impairment test for goodwill

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

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

Growth rate	2%
Discount rate	6.72%

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

# Notes to the Condensed Consolidated Interim Financial Information

## 8 RENTAL RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Rental receivables	—	19
Less: provision for impairment of receivables	—	—
	<hr/>	<hr/>
Rental receivables – net	—	19
Prepayments, deposits and other receivables	5,592	5,829
	<hr/>	<hr/>
	<b>5,592</b>	<b>5,848</b>
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

## 9 CASH AND CASH EQUIVALENTS – GROUP

As at 30 June 2007, included in the cash and cash equivalents of the Group are bank deposits of approximately HK\$174,528,000 (31 December 2006: HK\$184,712,000) denominated in Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The remittance of these funds out of China is subject to exchange control restrictions imposed by the Chinese government.

## 10 HEDGING RESERVE – GROUP

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Beginning of the period	(35,608)	(11,281)
Cash flow hedges:		
- Fair value (losses)/gains (Note 12)	(17,167)	13,240
- Transfer to net profit (Note 17)	31,183	11,696
	<hr/>	<hr/>
End of the period	<b>(21,592)</b>	<b>13,655</b>
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Condensed Consolidated Interim Financial Information

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

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Rental deposits, current portion	<u>13,678</u>	<u>9,919</u>
Receipts in advance	<u>18,371</u>	<u>12,721</u>
Provision for withholding tax payable	5,968	5,172
Provision for business tax and flood prevention fee	3,857	3,257
Accruals for operating expenses	<u>24,809</u>	<u>15,510</u>
Accruals and other payables	<u>34,634</u>	<u>23,939</u>
	<u><b>66,683</b></u>	<u><b>46,579</b></u>

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

Non-current rental deposits of the Group were approximately HK\$65,064,000 as at 30 June 2007 (31 December 2006: HK\$64,963,000).

## 12 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Interest rate and currency swaps - cash flow hedges		
Beginning of the period	77,578	11,231
Fair value losses/(gains) (Note 10)	17,167	(13,240)
Exchange difference	<u>3,058</u>	<u>—</u>
End of the period	<u><b>97,803</b></u>	<u><b>(2,009)</b></u>

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

# Notes to the Condensed Consolidated Interim Financial Information

## 12 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP (Continued)

### Interest rate and currency swaps

The notional principal amounts of the outstanding interest rate and currency swap contracts at 30 June 2007 were US\$165,000,000 (31 December 2006: US\$165,000,000).

At 30 June 2007, the fixed interest rates for the bank borrowings varied from 3.18% to 3.28% and the floating rate was LIBOR plus 1.35%. The contract reference exchange rate for the bank borrowings was 8.07847 Renminbi per one US dollar and the spot rate was the exchange rate announced by the State Administration of Foreign Exchange in China.

Gains and losses recognised in the hedging reserve in equity (Note 10) on interest rate and currency swap contracts as of 30 June 2007 will be continuously released to the income statement until the repayment of the secured bank borrowings (Note 13).

## 13 BANK BORROWINGS, SECURED – GROUP

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<b>Non-current</b>		
Bank borrowings	<u><b>1,284,543</b></u>	<u>1,266,469</u>

On 7 December 2005 (date of establishment of GZI REIT), the subsidiaries of GZI REIT and the lending banks (the “Lending Banks”) entered into a Facility Agreement in connection with a loan facility of US\$165,000,000 (equivalent to HK\$1,280,000,000) with a maturity period of three years for the financing of the acquisition of subsidiaries from Guangzhou Construction & Development Co. Ltd. The loans were fully drawn down by the Group on 21 December 2005. The subsidiaries of GZI REIT also entered into an interest rate and US\$/RMB currency non-deliverable swap facility with the Lending Banks on 21 December 2005. Pursuant to this arrangement, the interest rate under the above loan facility is fixed at 3.18% to 3.28% per annum for the entire three year tenure of the loan under the facility and the exchange rate will be fixed at 8.07847 Renminbi per one US dollar for repayment of interest and principal of the borrowings.

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

- investment properties of HK\$4,393,387,000 (Note 5)
- assignment of rental income and all other proceeds arising from each of the investment properties and of all tenancy agreements relating to each of the investment properties
- equity interests of Partat Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited, subsidiaries of the Group

# Notes to the Condensed Consolidated Interim Financial Information

## 13 BANK BORROWINGS, SECURED – GROUP (Continued)

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

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Between 2 and 5 years	<u><u>1,284,543</u></u>	<u><u>1,266,469</u></u>

The effective interest rate of the bank borrowings at the balance sheet date was 6.71% (31 December 2006: 6.72%). The carrying amounts of the borrowings approximate their fair values.

The Group has no undrawn borrowing facilities as at 30 June 2007 (31 December 2006: Nil).

## 14 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Beginning of the period	3,199,707	3,015,914
Transfer from income statement	124,751	128,311
Distribution paid during the period	(103,400)	—
Exchange difference	<u>113,482</u>	<u>—</u>
End of the period	<u><u>3,334,540</u></u>	<u><u>3,144,225</u></u>

# Notes to the Condensed Consolidated Interim Financial Information

## 15 EXPENSES BY NATURE

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Property management fee (i)	6,524	6,097
Urban real estate tax	5,219	4,725
Business tax and flood prevention fee	9,979	9,264
Withholding tax (ii)	18,758	17,477
Depreciation expenses of property, plant and equipment	1,122	341
Asset management fee	11,883	11,445
Trustee's remuneration	702	664
Valuation fee	100	40
Legal and professional fee	1,738	500
Auditor's remuneration	750	750
Bank charges	31	16
Others	6,270	5,472
	<hr/>	<hr/>
Total operating expenses	<b>63,076</b>	<b>56,791</b>
	<hr/> <hr/>	<hr/> <hr/>

Note:

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

## 16 EMPLOYEE BENEFIT EXPENSE

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

# Notes to the Condensed Consolidated Interim Financial Information

## 17 FINANCE COSTS

	Six months ended 30 June 2007 (Unaudited) HK\$'000	Six months ended 30 June 2006 (Unaudited) HK\$'000
Interest expense:		
- bank borrowings wholly repayable within five years (Note 13)	25,753	25,073
Net foreign exchange transaction gains	(31,042)	(11,937)
Transfer from hedging reserve (Note 10)		
- interest rate and currency swaps: cash flow hedge	31,183	11,696
	<u>25,894</u>	<u>24,832</u>

## 18 INCOME TAX EXPENSES

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

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

There is no material unprovided deferred taxation as at 30 June 2007 and 31 December 2006.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law brings forth certain changes to all China tax payers which include enterprises established within China or enterprises established outside of China. The new CIT Law also provides for preferential tax rates, possible exemptions or reductions to China's withholding tax for China sourced income and grandfathering provisions for certain previous preferential tax treatments as well as determination of taxable profit. As at the date that this interim financial information is approved for issue, detailed interpretation to the new CIT Law have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact of the new CIT Law to its corporate income tax position in China. The Group will continue to evaluate the impact as more detailed regulations are announced.



# Notes to the Condensed Consolidated Interim Financial Information

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

Earnings per unit based upon profit after tax before transactions with Unitholders for the six months ended 30 June 2007 is approximately HK\$0.1107 (2006: HK\$0.1033). The calculation of earnings per unit is based on profit after tax before transactions with Unitholders of approximately HK\$110,735,000 (2006: HK\$103,375,000) and on 1,000,000,000 units (2006: 1,000,000,000 units) in issue during the period.

Diluted earnings per unit is not presented as there is no dilutive instrument for the six months ended 30 June 2007.

## 20 CAPITAL COMMITMENTS

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Capital commitments in respect of property, plant and equipment, contracted but not provided for	478	864
Capital commitments in respect of investment properties, contracted but not provided for	<u>1,263</u>	<u>2,316</u>
	<u><u>1,741</u></u>	<u><u>3,180</u></u>

# Notes to the Condensed Consolidated Interim Financial Information

## 21 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

As at 30 June 2007, the Group was significantly influenced by Guangzhou Investment Company Limited (incorporated in Hong Kong), which owns approximately 31% of GZI REIT's units. The remaining approximately 69% of the units are widely held.

The table set forth below summarized the names of connected parties, as defined in the REIT Code, and nature of relationship with GZI REIT as at 30 June 2007:

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

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

# Notes to the Condensed Consolidated Interim Financial Information

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

### (a) Transactions with connected parties/related parties

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

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	Six months ended 30 June 2006 (Unaudited) HK\$'000
Asset management fee paid/payable to the Manager (ii)	<b>(11,883)</b>	(11,445)
Decoration expenses paid/payable to GCCD Decoration, net	—	(358)
Management fee paid/payable to Yicheng	<b>(2,570)</b>	(2,452)
Management fee paid/payable to White Horse Property Management Co. Ltd	<b>(3,954)</b>	(3,645)
Rental income received/receivable from Guangzhou City Construction & Development Xingye Property Agent Ltd.	<b>1,000</b>	948
Rental income received/receivable from GZI	<b>581</b>	551
Rental income received/receivable from Yue Xiu Enterprises (Holdings) Limited	<b>25</b>	24
Rental income received/receivable from Yicheng	<b>3</b>	3
Trustee fee paid/payable to the Trustee	<b>(702)</b>	(664)
Valuation fee paid/payable to the Valuer	<b>(100)</b>	(40)
Transactions with the HSBC Group		
Interest expense paid/payable to the HSBC Group (iii)	<b>(8,340)</b>	(8,026)
Rental income received/receivable from the HSBC Group	<b>5,166</b>	3,916
Interest income from the HSBC Group	<b>2,338</b>	1,106
	<b>—————</b>	<b>—————</b>

Note:

- (i) All transactions with connected parties/related parties were carried out in accordance with the terms of the relevant agreement governing the transactions.
- (ii) The asset management fee is calculated as the aggregate of a base fee of 0.3% per annum of the value of the Deposited Property, as defined in the Trust Deed and a service fee of 3% per annum of Net Property Income, as defined in the Trust Deed.
- (iii) The Group also entered into an interest rate and US\$/RMB currency non-deliverable swap facility with the HSBC Group on 21 December 2005. Details of the swap arrangement are disclosed in Note 12.

# Notes to the Condensed Consolidated Interim Financial Information

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

### (b) Balances with related parties

The following balances were carried out with related parties:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Balance with GCCD		
Amount due to GCCD	—	(901)
Balance with Yicheng		
Amount due to Yicheng	(437)	(724)
Balance with White Horse Property Management Co. Ltd.		
Amount due to White Horse Property Management Co. Ltd.	(673)	(857)
Balance with GCCD Decoration		
Amount due to GCCD Decoration	—	(371)
Balance with the Manager		
Amount due to the Manager	(11,883)	(17,065)

Note:

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

### (c) Key management compensation

There was no key management compensation for the six months ended 30 June 2007 (2006: Nil).

# Notes to the Condensed Consolidated Interim Financial Information

## 22 FUTURE MINIMUM RENTAL RECEIVABLE – GROUP

At 30 June 2007, the Group had future minimum rental receivable under non-cancellable leases as follows:

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Not later than one year	377,655	372,491
Later than one year and not later than five years	775,855	858,224
Later than five years	—	4
	<u>1,153,510</u>	<u>1,230,719</u>

## Performance Table

As at 30 June 2007

	<b>30 June 2007</b>	30 June 2006
Total net assets attributable to Unitholders	<b>HK\$3,334,540,000</b>	HK\$3,144,225,000
Net assets attributable to Unitholders per unit	<b>HK\$3.335</b>	HK\$3.144
The highest premium of the traded price to net asset attributable to Unitholders (i)	—	HK\$0.556
The highest discount of the traded price to net asset attributable to Unitholders (i)	<b>HK\$0.335</b>	HK\$0.294
Net yield per unit (ii)	<b>3.59%</b>	3.33%
Number of units in issue	<b>1,000,000,000</b>	1,000,000,000

Note:

- (i) The highest premium is calculated based on the highest traded price of HK\$3.310 on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) during the period from 1 January 2007 to 30 June 2007. The highest discount is calculated based on the lowest traded price of HK\$3.000 on the Stock Exchange during the period from 1 January 2007 to 30 June 2007. Since the highest traded price during the six months ended 30 June 2007 was HK\$3.310, which was lower than the net asset value as at 30 June 2007, no premium of the traded price to net asset value was presented for 30 June 2007.
- (ii) Net yield per unit is calculated based on profit after tax before transactions with Unitholders per unit for the period from 1 January 2007 to 30 June 2007 over the traded price on the Stock Exchange of HK\$3.080 (2006:HK\$3.100) as at 30 June 2007.

# Corporate and Investor Relations Information

## BOARD OF DIRECTORS OF THE MANAGER

### Executive directors

Mr Liang Ningguang (*Chairman*)

Mr Liu Yongjie

### Non-executive director

Mr Liang Youpan

## Independent non-executive directors & audit committee members

Mr Chan Chi On, Derek

Mr Lee Kwan Hung, Eddie

Mr Chan Chi Fai, Brian

## Responsible Officers of the Manager

Mr Liang Ningguang

Mr Liu Yongjie

Mr Lau Jin Tin Don

## COMPANY SECRETARY OF THE MANAGER

Mr Yu Tat Fung

## TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

## AUDITOR OF GZI REIT

PricewaterhouseCoopers

Certified Public Accountants

# Corporate and Investor Relations Information

## PRINCIPAL VALUER

Colliers International (Hong Kong) Ltd.

## HONG KONG LEGAL ADVISOR

Baker & McKenzie  
Paul, Hastings, Janofsky & Walker

## PRINCIPAL BANKERS OF GZI REIT

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

## WEBSITES TO ACCESS INFORMATION IN RELATION TO GZI REIT

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

## REGISTERED OFFICE OF THE MANAGER

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

## UNIT REGISTRAR AND TRANSFER OFFICE

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



# Corporate and Investor Relations Information

## UNIT LISTING

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

The stock code is: 405

## INVESTOR RELATIONS

For further information about  
GZI REIT, please contact:  
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