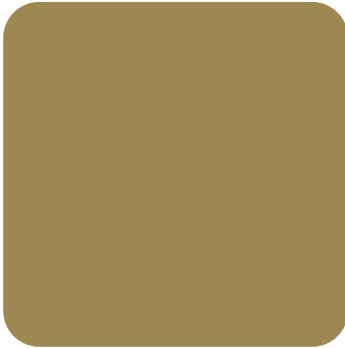




# GZI Real Estate Investment Trust

## 越秀房地產投資信託基金

(a Hong Kong collective investment scheme under section 104 of the Securities and Future Ordinance <chapter 571 of the Laws of Hong Kong>)  
(Stock Code: 405)



# 2008 INTERIM REPORT

Manager



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

# Contents

002 PERFORMANCE SUMMARY

003 REPORT OF THE CHIEF EXECUTIVE OFFICER

006 GZI REIT PROFILE

006 TOTAL DISTRIBUTABLE INCOME

MANAGEMENT DISCUSSION AND ANALYSIS

007 Business Review

011 Financial Review

016 CONNECTED PARTY TRANSACTIONS

026 REVIEW REPORT OF THE INDEPENDENT AUDITOR

027 CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

029 CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

030 CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

031 DISTRIBUTION STATEMENT

032 CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

033 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

049 PERFORMANCE TABLE

050 CORPORATE AND INVESTOR RELATIONS INFORMATION



# Performance Summary

## PERFORMANCE TABLE

	Six months ended 30 June	
	2008	2007
Distributions per unit (Note a)	HK\$0.1234	HK\$0.1107
Earnings per unit	HK\$0.2245	HK\$0.1107
Net assets attributable to Unitholders per unit	HK\$3.86	HK\$3.335
Net tangible assets attributable to Unitholders per unit	HK\$3.69	HK\$3.171
Offer price per unit upon listing	HK\$3.075	HK\$3.075
Closing price per unit	HK\$2.820	HK\$3.080
Distribution yield per unit based on offer price	4.02%	3.60%
Distribution yield per unit based on closing price	4.38%	3.59%
Number of units in issue	1,065,972,687 units	1,000,000,000 units
Highest premium of traded price to net assets attributable to Unitholders	—	—
Highest discount of traded price to net assets attributable to Unitholders	HK\$1.110	HK\$0.335
Total assets	HK\$6,446 million	HK\$4,862 million
Total liabilities, excluding net assets attributable to Unitholders	HK\$2,328 million	HK\$1,527 million
Net assets attributable to Unitholders	HK\$4,118 million	HK\$3,335 million
Net tangible assets (net assets attributable to Unitholders minus goodwill)	HK\$3,935 million	HK\$3,171 million
Total borrowings as a percentage of gross assets (Note b)	27%	26%
Gross liabilities as a percentage of gross assets (Note c)	36%	31%
Net property income	HK\$204.163 million	HK\$172.189 million

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

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

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



## 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 report for the first half of 2008.

## RESULTS & DISTRIBUTIONS

For the first half of 2008, with the extraordinary efforts of the entire management team and support from every segment, GZI REIT continued to achieve excellent operating results, and all the key operation indicators recorded satisfactory performance, showing a positive development trend.

For the period from 1 January 2008 to 30 June 2008 (“2008 Interim Period”), GZI REIT realized a Total Distributable Income of approximately HK\$131,552,000, an increase of approximately HK\$20,817,000, or approximately 18.8% over the Total Distributable Income of HK\$110,735,000 during the same period last year. Distributable amount per unit was approximately HK\$0.1234, an increase of HK\$0.0127, or approximately 11.5% over the distributable amount per unit of HK\$0.1107 during the same period last year. Based on the offering price per unit of HK\$3.075 at the listing, the distribution rate was approximately 4.02%, while based on the closing price of HK\$2.82 on 30 June 2008, the distribution rate was 4.38%.

As at 30 June 2008, GZI REIT owned five properties - White Horse Building Units, Fortune Plaza Units, City Development Plaza Units, Victory Plaza Units and Yue Xiu Neo Metropolis Plaza Units (“Properties”), with a total rentable area of 210,032.0 sq.m. (excluding 7,549.03 sq.m. of parking spaces and 4,528.06 sq.m. of clubhouse and common facilities area of the Yue Xiu Neo Metropolis Plaza Units, which are not included in the total area currently leased and occupancy rate mentioned below), of which 207,013.7 sq.m. are currently leased out. The overall occupancy rate of the Properties is 98.6%, 0.6% higher than that of the same period last year.

For the 2008 Interim Period, GZI REIT recorded a total operating income of approximately HK\$232,121,000, a 18.4% higher than the amount of HK\$196,048,000 for the same period last year. Rent collection rate remained 100%, without any bad debts. All the Properties were under stable operation, and sustained steady growth.

# Report of the Chief Executive Officer

## MARKET ANALYSIS

In the first half of 2008, with the continuous influence from macroeconomic control measures and serious natural disasters, the overall economy of the People's Republic of China ("China") slowed down, yet still demonstrating a steadily fast development momentum.

According to the National Bureau of Statistics, China's gross domestic product for the first half of 2008 amounted to RMB13,061.9 billion, representing a year-on-year growth of 10.4% and a 1.8 percentage point decrease over the same period last year. Total retail sales of social consumables amounted to RMB5,104.3 billion, representing a year-on-year growth of 21.4%. On a year-on-year basis, the property selling prices in 70 medium and large cities in China increased by 10.2%, while the property rental prices in June increased by 4.2%.

Compared with the national economy, the overall economic development of Guangzhou remained stable, yet inclining to be slowing down. According to Guangzhou Bureau of Statistics, for the first half of 2008, Guangzhou's GDP amounted to approximately RMB373.353 billion, representing an 11.9% increase over the same period last year; real estate investment amounted to RMB31.912 billion, a year-on-year growth of 19.7%. The property selling prices in May increased by 2.1%, 7.1 percentage points lower than the national level of 9.2% for the same period, and as well, lower than those of Beijing (12.4%), Shanghai (9.5%), Tianjin (7.3%) and Shenzhen (2.5%). Such a relatively stable growth of property selling prices contributed to the healthy development of real estate market.

## BUSINESS OPERATING STRATEGIES

In view of the market situation, we have adopted appropriate strategies tailored to the distinctive features of the five Properties owned by GZI REIT, aiming to strengthen the Properties' competitiveness and to tap their business potentials, while keeping a steady growth of operating results.

The White Horse Building Units are the core property of GZI REIT's properties portfolio. We have been dedicated to optimizing our client portfolio, enhancing property management and customer service and increasing marketing efforts, so as to consolidate our leading position in the domestic fashion wholesale industry. Meanwhile, in order to maintain stable rental income in the future, we actively commenced assets enhancement projects and improved the business environment to increase the competitiveness of the building.

Victory Plaza Units are located in the Tianhe retail business circle of Guangzhou. Such geographical advantage makes it a new contributor to our profit growth. We strived to introduce premium clients and improve the image and environment of the shopping mall, which effectively stimulated visitor flow and led to significant increase in occupancy rate and rentals.

Fortune Plaza Units and City Development Plaza Units are Grade A office buildings situated at Tianhe CBD District. We placed emphasis on optimizing tenant mix and implementing a good tenant relation management strategy to maintain high occupancy rates and increasing rentals of the buildings.

Yue Xiu Neo Metropolis Plaza Units are newly acquired commercial complex featuring office, retail and parking spaces. We focused on increasing marketing efforts, and closely observed the demand for expanding leased area of premium tenants. Through great endeavors of the management team, the occupancy rate of Yue Xiu Neo Metropolis Plaza Units increased to 97.1% (June) from 88.8% (May) before being acquired, and the Properties realized good revenue.



## INVESTMENT AND FINANCIAL STRATEGIES

Investment and acquisition are effective means for GZI REIT to expand its asset scale, enhance market competitiveness and provide dynamism for future development. On 26 February 2008, we held a Unitholders' Extraordinary General Meeting to amend the Trust Deed for the expansion of geographical reach of our investment from Guangdong Province to the whole of China (including Mainland, Hong Kong and Macau). This increased the investment opportunities in different regional markets and resulted in more flexible investment strategies and enhanced market competitiveness.

In the first half of 2008, we have made significant breakthroughs in investment and acquisition: we completed the acquisition of 61,000 sq.m. of Yue Xiu Neo Metropolis Plaza Units through exercising our right of first refusal.

On 14 July 2008, we purchased a unit of 999 sq.m. on 17th floor of Fortune Plaza through public auction and completion will take place within the next couple of months. Through the aforesaid successful acquisitions, we have accumulated valuable experience for future acquisitions.

In terms of financial management, adhering to the principle of steady growth, we continued to adopt prudent financial risk management measures. As at 30 June 2008, GZI REIT's total borrowings to total assets ratio increased to 27% from 26% for the same period last year as a result of increased borrowings for new acquisitions, which means there is still certain room for increment as compared with the 45% ceiling stipulated by the Hong Kong Code on Real Estate Investment Trusts.

## MARKET AND BUSINESS PROSPECTS

In the second half of this year, it is expected that Chinese Government will continue to implement a series of consistent and orientated macro-economic control measures, which would cool off the real estate market. Against stable, upward trend of the overall economy, however, Guangzhou's economy will maintain steady growth with strong market demand, while the leasing market will continue to fare well and contribute to the operation and expansion of GZI REIT.

To ensure the steady and improving performance of property operations, we will continue to enhance the operation potential and market competitiveness of our properties portfolio through quality management. We will carry out careful market research and formulate effective strategies for various projects, thereby laying a solid foundation for the development in the next year and in longer term. Regarding investment and acquisition, we will continue to adhere to moderate and prudent investment strategies, actively consider and identify investment opportunities to strengthen our asset scale, so as to increase investment return for the better interests of Unitholders.

## APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to extend our appreciation to the management and all the staff for their hard work; and our appreciation to all Unitholders, tenants and business partners for their full cooperation and support to GZI REIT!

**Liu Yongjie**  
*Chief Executive Officer*

Hong Kong, 25 August 2008



# GZI REIT Profile

GZI REIT is a Hong Kong real estate investment trust constituted by a trust deed dated 7 December 2005 as amended by a first supplemental deed dated 25 March 2008 (collectively the “Trust Deed”), and made between HSBC Institutional Trust Services (Asia) Limited as the trustee (“Trustee”) and the Manager. GZI REIT was listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 21 December 2005 (“Listing Date”).

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

## Total Distributable Income

The total distributable income (“Total Distributable Income”) (as defined in the Trust Deed) of GZI REIT to the unitholders of GZI REIT (“Unitholders”) for the 2008 Interim Period amounted to approximately HK\$131,552,000 (2007: HK\$110,735,000), representing distribution per unit of HK\$0.1234 (2007: HK\$0.1107).

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

In accordance with the Trust Deed, GZI REIT will distribute no less than 90% of Total Distributable Income to the Unitholders. The Manager’s policy is to distribute to the Unitholders 100% of GZI REIT’s Total Distributable Income 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 2008 Interim Period of HK\$0.1234 (2007: HK\$0.1107) per unit.

The 2008 interim distribution amounting to approximately HK\$131,541,000 (2007: HK\$110,700,000), in aggregate, will be effected on or about 30 October 2008 and be payable to the Unitholders whose names appear on the register of Unitholders on 28 October 2008.

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 adjusted to eliminate the effects of certain non-cash items which have been recorded in the income statement for the relevant year or period.

# Management Discussion and Analysis



## BUSINESS REVIEW

In the first half of 2008, GZI REIT made remarkable achievements in investment and acquisition and property operation. Its property portfolio was further enlarged, operating results steadily improved, and property competitiveness further strengthened.

## PROPERTY PORTFOLIO

As at 30 June 2008, GZI REIT's property portfolio consists of five properties - White Horse Building Units, Fortune Plaza Units, City Development Plaza Units, Victory Plaza Units and Yue Xiu Neo Metropolis Plaza Units. The aggregate area of ownership was approximately 222,615.3 sq.m., representing a 38.57% increase from 160,651.0 sq.m. for the same period last year; total rentable area was approximately 210,032.1 sq.m., representing a 31.15% increase from approximately 160,144.8 sq.m. for the same period last year.

According to an interim valuation by the independent professional valuer, Colliers International (Hong Kong) Ltd ("Colliers") the valuation of the Properties of GZI REIT as at 30 June 2008 amounted to HK\$5,839,800,000, of which the original four scheme properties had a total capitalisation of HK\$5,060,600,000, representing an increase (including exchange gains during the period) of HK\$365,100,000 or 7.7% over the valuation on 31 December 2007. As at 30 June 2008, the valuation of Yue Xiu Neo Metropolis Plaza Units was approximately HK\$779,200,000. The Net assets attributable to Unitholders per unit was HK\$3.86, 9.3% higher than the net assets attributable to Unitholders per unit as at 31 December 2007.

The following table summarizes the valuation of each of the Properties as at 30 June 2008 and 31 December 2007:

	<b>Valuation as at 30 June 2008</b>	<b>Valuation as at 30 December 2007</b>	<b>Increase/ Decrease(-) %</b>
	(HK\$ million)	(HK\$ million)	
White Horse Building Units	3,215.4	2,990.8	7.5%
Fortune Plaza Units	696.9	642.7	8.4%
City Development Plaza Units	503.7	457.2	10.2%
Victory Plaza Units	644.6	604.8	6.6%
Sub-total	5,060.60	4,695.5	7.7%
Yue Xiu Neo Metropolis Plaza Units	779.2	N/A	N/A
Total	5,839.8	4,695.5	24.3%



# Management Discussion and Analysis

The following table shows particulars of the Properties:

Property	Type	Location	Year of Completion	Area of Ownership (sq.m.)	Total Rentable area (sq.m.)	Occupancy Rate <sup>(2)</sup>	No. of Lease Contract <sup>(2)</sup>	Appraised Value <sup>(2)</sup> ((HK\$ million)
White Horse Building Units	Wholesale shopping center	Yuexiu District	1990	50,199.3	50,128.9	99.5%	1,286	3,215.4
Fortune Plaza Units	Grade A office	Tianhe District	2003	40,356.2	40,356.2	99.5%	76	696.9
City Development Plaza Units	Grade A office	Tianhe District	1997	42,397.4	42,397.4	98.8%	66	503.7
Victory Plaza Units	Retail shopping center	Tianhe District	2003	27,698.1	27,262.3	97.8%	20	644.6
Yue Xiu Neo Metropolis Plaza Units	Commercial complex	Yuexiu District	2007	61,964.3	49,887.3 <sup>(1)</sup>	97.1% <sup>(1)</sup>	98	779.2
<b>Total</b>				<u>222,615.3</u>	<u>210,032.1</u>	<u>98.6%</u>	<u>1,546</u>	<u>5,839.8</u>

Note: (1) excluding 7,549.03 sq.m. of parking spaces and 4,528.06 sq.m. of clubhouse and common facilities area.

(2) As at 30 June 2008.

## OCCUPANCY RATE STAYED AT HIGH LEVELS

As at 30 June 2008, the overall occupancy rate of the Properties was approximately 98.6%, representing a 0.6 percentage point higher than 98.0% for the same period last year. Without taking into account the newly acquired Yue Xiu Neo Metropolis Plaza Units, the occupancy rate of the original four scheme properties was approximately 99.0%, being a record high. The occupancy rate for Fortune Plaza Units and City Development Plaza Units remained stable at 99.5% and 98.8% respectively, while that of Victory Plaza Units increased significantly to 97.8% from 92.0% for the same period last year. As for Yue Xiu Neo Metropolis Plaza Units, after one month since its acquisition, the occupancy rate of the building increased significantly to 97.1%, compared to 88.8% as at the end of May 2008.

The high occupancy rate was due on one hand to the favorable external economic environment of Guangzhou and China, coupled with the manager's right operation strategies and quality management.

The following table sets out a comparison of occupancy rates in respect of all the Properties between this interim period and the same period of previous year:

Name of Property	Occupancy Rate as at 30 June 2008	Occupancy Rate as at 30 June 2007	Percentage Increase/ (Decrease) Compared to 30 June 2007
White Horse Building Units	99.5%	99.3%	0.2%
Fortune Plaza Units	99.5%	99.6%	(0.1%)
City Development Plaza Units	98.8%	98.7%	0.1%
Victory Plaza Units	97.8%	92.0%	5.8%
Yue Xiu Neo Metropolis Plaza Units	97.1%	N/A	N/A
<b>Total</b>	<b>98.6%</b>	<b>98.0%</b>	<b>0.6%</b>



## OPERATING INCOME CONTINUED TO INCREASE

For 2008 Interim Period, the Properties recorded an operating income of HK\$232,121,000, representing a 18.4% increase compared to that of the previous year. Without taking into account of the newly acquired property, Yue Xiu Neo Metropolis Plaza Units, the comparable total operating income increased 16.1% over the same period last year.

White Horse Building Units, Fortune Plaza Units, City Development Plaza Units, Victory Plaza Units and Yue Xiu Neo Metropolis Plaza Units accounted for approximately 63.3%, 12.8%, 11.5%, 10.5% and 1.9% respectively of the total operating income of the Properties.

No bad debt was recorded during this interim period.

The following table sets out a comparison of operating income in respect of all the Properties between this interim period and the same period of previous year:

Name of property	Operating Income for 2008 Interim Period (HK\$ million)	Operating Income for 2007 Interim (HK\$ million)	Increase/ Decrease Compared to 2007 Interim (HK\$ million)	Increased Percentage of Operating Income from Property
White Horse Building Units	146.9	131.8	15.1	11.5%
Fortune Plaza Units	29.6	24.9	4.7	18.9%
City Development Plaza Units	26.7	21.9	4.8	21.9%
Victory Plaza Units	24.4	17.4	7.0	40.2%
Sub-total	227.6	196.0	31.6	16.1%
Yue Xiu Neo Metropolis Plaza Units (Note 1)	4.5	—	4.5	—
Total	232.1	196.0	36.1	18.4%

Note 1 Only one-month operating income is obtained as the acquisition of Yue Xiu Neo Metropolis Plaza is completed on 1 June 2008.

### White Horse Building Units: Continued to consolidate its leading position in the fashion wholesale industry

As a leader in the domestic fashion wholesale industry, White Horse Building has been awarded for many times one of the top 10 fashion markets in China by relevant authorities. During the first half of 2008, the Manager has improved the tenant selection system through a comprehensive assessment of the research and production strength, brand recognition, business categories and operating style of tenants, whereby we introduced premium tenants that suited the market positioning of White Horse Building and strengthened our core competitiveness in the market. At the same time, we have been more committed to customer service and marketing through organizing annual premium brand prize in honor of White Horse and selection of premium tenants. Consequently, White Horse Building's influence was comprehensively enhanced and its leading position in the domestic fashion wholesale industry was further consolidated.

# Management Discussion and Analysis

## **Fortune Plaza Units and City Development Plaza Units: strengthened renewal management, enhanced rental rates**

Fortune Plaza and City Development Plaza are notable Grade A office buildings in Tianhe CBD District. Currently, their occupancy rate is nearly 100%. The Manager was optimizing tenant portfolio and upgrading rental rates mainly through management of renewal activities and tenant portfolio. For the first half of 2008, the renewal area of two office properties of Fortune Plaza Units and City Development Plaza Units was approximately 15,000 sq.m., representing a 71.0% renewal rate, while the renewed rental rates increased by 7.3% and 9.3% on average. On the other hand, the Manager has introduced new premium tenants and satisfied the demand of original tenants for expanding leased areas on the ground of some units with leases expired or earlier terminated. The newly leased areas of Fortune Plaza Units and City Development Plaza Units were approximately 11,000 sq.m., with a 5.5% and 18.0% increase in rental rates respectively over the previous leases. After adjustments, as at the end of June 2008, the Fortune top 500 companies in the world accounted for 45% of the leased area of Fortune Plaza Units, while 44% leased area of City Development Plaza were leased by financial enterprises. The tenant mix has significantly improved, with average rental unit price increased by approximately 6.7% and 12.5% over the same period last year.

## **Victory Plaza Units: Introduced new tenants, strengthened operating characteristics**

For Victory Plaza Units, in the first half of 2008, the Manager has actively introduced Maxim's Starbucks Coffee Bar, well-known female's fashion life home and popular catering tenants when the external operating environment was comprehensively improved. The newly leased area amounted to approximately 1,640 sq.m., with over 90% increase in rental rates compared to previous leases. After introduction of new tenants, the tenant mix of Victory Plaza Units became more reasonable with increasing brand tenants. Victory Plaza has become a high-end shopping mall focusing on sales of electrical appliance and featuring shopping, catering and leisure activities, occupying a niche in the Tianhe retail business circle. With enhanced market competitiveness, average rental income per square metre in June 2008 is RMB122.65 (June 2007: RMB106.23) which represent an increase of approximately 15.4%.

## **Yue Xiu Neo Metropolis Plaza Units — Increased marketing efforts, strived to increasing occupancy rate**

Yue Xiu Neo Metropolis Plaza Units, a commercial complex newly acquired on 1 June 2008, is located above the underground metro station, Ximenkou, Zhongshanliu Road, Guangzhou. As disclosed in the circular dated 4 February 2008, the occupancy rate of the units was only 75.1% for October 2007. To ensure that the leasing operation maintained a good upward momentum during the period of acquisition and safeguard the interests of all parties thereto, the Manager formulated leasing policies together with the original owner upon active communication and close cooperation. With increased marketing efforts and enlarged marketing teams, the occupancy rate increased to 97.1% by the end of June 2008. In addition, the Manager has vigorously strengthened supervision of property management and service quality of the building. As a result, the property management standard of Yue Xiu Neo Metropolis Plaza was effectively enhanced, and was awarded "Guangzhou's Model Building for Quality Property Management" in June 2008.



## Implemented assets enhancement program, strengthened competitiveness of the Properties

Assets enhancement is an important means to maintain and improve competitiveness of properties.

White Horse Building Units are the focus of assets enhancement. In the first half of 2008, the Manager conducted renovation to the ground and ceiling of the lobby on the first floor during spring festival, effectively upgrading the shopping mall. Re-planning of some accesses on the second floor increased the pedestrian flow and the value of related shops. To shape a comfortable operating environment and to provide favourable conditions for future increased rentals, the Manager planned to invest RMB9.6 million to install new power supply system of White Horse Building Units for expansion of the power capacity. The works are expected to complete in October 2008.

As for Victory Plaza Units and other projects, Guangzhou Yicheng Property Management Ltd. (“Yicheng”), under the supervision of the Manager, has formulated a comprehensive plan for repair and maintenance and reasonable application of property management fees. Planned repair and maintenance were carried out to the building according to the requirements to upgrade the hardware of the building.

## Successfully implemented new acquisitions, expanded assets scale

In the first half of 2008, the Manager have made significant breakthrough in investment and acquisition.

On 1 June 2008, GZI REIT formally completed an acquisition of Yue Xiu Neo Metropolis Plaza Units, with a total gross floor area of 61,964 sq.m., from GZI (a substantial unitholder of GZI REIT) at a consideration of HK\$677.3 million. As a result of this acquisition, the property portfolio of GZI REIT increased by 38.5% to a total gross floor area of 222,615 sq.m. Please refer to the announcement of the Manager dated 2 June 2008 for further details.

Furthermore, on 14 July 2008, GZI REIT, through Guangzhou Jieyacheng Properties Co Ltd, successfully won the bid at a public auction for a unit on the 17th floor of Fortune Plaza (with a gross floor area of 999.0119 sq.m.) at a consideration of RMB15.50 million. Upon completion of the acquisition, the rental area of Fortune Plaza Units will increase to 41,355.2 sq.m. from 40,356.2 sq.m. while GZI REIT’s ownership percentage of Fortune Plaza (by total gross floor area) will increase to approximately 51.4% from approximately 50.2%. Please refer to the announcement of the Manager dated 15 July 2008 for further details.

## FINANCIAL REVIEW

### Distribution Per Unit

Distribution to Unitholders for the 2008 Interim Period of HK\$0.1234 (2007: HK\$0.1107) per unit represents a yield of approximately 4.38% (2007: 3.59%) per unit based on the closing price of HK\$2.82 per unit as at 30 June 2008. This represents an annualized distribution yield of 8.75%.

Using the initial public offer (“IPO”) price of HK\$3.075 per unit, the distribution per unit represents a yield of 4.02%.

### Unit Activity

As part payment of the consideration for the acquisition of Yue Xiu Neo Metropolis Plaza Units, 65,972,687 units were issued on 2 June 2008. As at 30 June 2008, GZI REIT has a total of 1,065,972,687 units in issue. The closing price as at 30 June 2008 was HK\$2.82 per unit which represents a 8.3% decrease compared to the IPO price of HK\$3.075 per unit.

GZI REIT’s unit price reached a high of HK\$3.30 and a low of approximately HK\$2.75 during the 2008 Interim Period. The volume transacted during the 2008 Interim Period was 199,416,426 units, equivalent to an average of 1,675,768 units daily.

# Management Discussion and Analysis

## Asset Value

The net assets attributable to the Unitholders per unit as at 30 June 2008 was approximately HK\$3.86 (31 December 2007: HK\$3.53), which represents an increase of 9.3%. The total net tangible assets attributable to Unitholders per unit as at 30 June 2008 was approximately HK\$3.69 (31 December 2007: HK\$3.37), which represents an increase of 9.5%.

## Financial Results

Both rental income and net property income were higher than the interim period of 2007. The following is a summary of GZI REIT's financial results during the 2008 Interim Period:

	Six months ended 30 June		% of Increase/ (decrease)
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	
<b>Gross income</b>	232,121	196,048	18.40%
Leasing agents' fee	(7,810)	(6,524)	19.71%
Property related taxess	(18,022)	(15,309)	17.72%
Other property expenses (Note 1)	(2,126)	(2,026)	4.94%
<b>Total property operating expenses</b>	(27,958)	(23,859)	17.18%
<b>Net property income</b>	204,163	172,189	18.57%
Withholding tax	(22,949)	(18,758)	22.34%
Manager's fees	(13,423)	(11,883)	12.96%
Trustee's fees	(799)	(702)	13.82%
Other trust expenses (Note 2)	(2,665)	(7,874)	(66.15)%
Total non-property expenses	(39,836)	(39,217)	1.58%
<b>Profit before finance costs, interest income and tax</b>	164,327	132,972	23.58%
Interest income	2,792	3,657	(23.65)%
Finance costs – excluding amounts attributable to Unitholders	(29,080)	(25,894)	12.3%
<b>Profit before tax</b>	138,039	110,735	24.66%
Income tax expenses	(11,127)	—	N/A
<b>Net Profit after tax before fair value gains on investment properties</b>	126,912	110,735	14.61%
Fair value gains on investment properties	99,896	—	N/A
<b>Net Profit after tax before transactions with Unitholders</b>	226,808	110,735	104.82%

Note 1 Other property expenses include valuation fee, insurance premium, depreciation and bank charges incurred at the level of the properties.

Note 2 Other trust expenses include audit fees, printing charges, unit registrar's fees, listing fees, legal advisory fee, company secretarial fees, exchange difference and miscellaneous expenses.



Profit after tax before transactions with Unitholders amounted to approximately HK\$226,808,000 (2007: HK\$110,735,000), which represents 104.82% increase.

Gross revenue and net property income were approximately HK\$232,121,000 (2007: HK\$196,048,000) and approximately HK\$204,163,000 (2007: HK\$172,189,000) respectively, which represents an increase of 18.40% and 18.57% respectively while comparing with 2007.

Property operating expenses increased by 17.18% as compared with 2007.

Other trust expenses are decreased by approximately HK\$5,209,000 as compared with 2007. This is mainly attributable to the exchange gain and the decrease in professional fees for services rendered by legal advisers.

## **CAPITAL STRUCTURE**

The capital management policy of GZI REIT is to achieve optimal debt profile. The special purpose vehicles of GZI REIT (“SPVs”) entered into a facility agreement with certain lending banks on 7 December 2005 for a three year floating rate term loan facility of US\$165 million which was fully drawn down on the Listing Date. To change the floating rate to fixed rate of the loan facility, GZI REIT agreed with the banks to enter into interest rate and currency swap contracts. The term loan is repayable in 3 years from the date of the drawdown. The bank borrowings are secured and the security package includes, among others, a registered mortgage over each of the Properties, assignment of rental income and all other proceeds arising from each of the Properties and of all tenancy agreements relating to each of the Properties and a legal mortgage over the shares of the SPVs.

Metrogold Development Limited (Metrogold), a special purpose vehicle of GZI REIT holding indirectly the Yue Xiu Neo Metropolis Plaza Units, entered into a facility agreement with Hong Kong and Shanghai Banking Corporation on 1 June 2008 for a floating rate bridge loan facility of HK\$485 million which was fully drawn down on 2 June 2008. The bank borrowings are secured and the security package includes, a legal mortgage over the shares of Metrogold, a first fixed charge over all bank accounts and a first fixed and floating charge over all other assets.

The bank borrowings and the swaps contracts will be due on 21 December 2008, the Manager has started negotiating with banks for a new facility arrangement. Under the present situation, the Manager believes that there should be no impediment for successful financing.

Total borrowings (excluding debt-related expenses) as a percentage of value of gross assets is 27% whilst total liabilities (excluding debt-related expenses) as a percentage of value of gross assets is 36%.



# Management Discussion and Analysis

## REVIEW OF FINANCIAL RESULTS

The results of GZI REIT for the 2008 Interim Period have been reviewed by the Disclosures Committee and Audit Committee of the Manager and by the GZI REIT's auditors 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.

## ISSUANCE OF 2008 INTERIM REPORT

The interim report of GZI REIT for the six months ended 30 June 2008 will be published on the websites of the Stock Exchange and GZI REIT and will be sent to Unitholders on or before 31 August 2008.

## REPURCHASE, SALE OR REDEMPTION OF UNITS

GZI REIT may, subject to the fulfillment of certain requirements, purchase its own Units on the Stock Exchange.

During the 2008 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

Pursuant to the agreement in the Offering Circular of GZI REIT, we have a right of first refusal to acquire certain commercial properties that fall within certain specified criteria, Guangzhou Investment Company Ltd (GZI), a major unitholder of GZI REIT, when GZI disposes of the same. We proposed to acquire 72.3% of the total floor area of Yue Xiu's Neo Metropolis Plaza with a total area of approximately 61,964 square meters at a consideration of HK\$677.3 million. The proposal was approved by the Unitholders at an Extraordinary General Meeting held on 26 February 2008. The completion of the acquisition took place on 1 June 2008. The consideration payable in relation to the acquisition of approximately HK\$677.3 million (subject to adjustment payment to be made in accordance with the sale and purchase agreement) was satisfied by 1) approximately HK\$203.2 million by way of issue and allotment of the 65,972,687 Consideration Units on 2 June 2008 and 2) balance approximately HK\$474.1 million by way of payment in cash on 2 June 2008 as funded by a floating rate bridging loan facility. For details of the acquisition, please refer to the circular dispatched on 4 February 2008 and the announcement published on 2 June 2008.

## EMPLOYEES

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

## CORPORATE GOVERNANCE

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

The Manager has adopted a compliance manual ("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 2008 Interim Period, the Manager has complied with the provisions of the Compliance Manual for its management of GZI REIT.



## **NEW UNITS ISSUED**

During the 2008 Interim Period, a total of 65,972,687 new Units were issued in the following manner:

On 2 June 2008, 65,972,687 new units were issued as consideration units to a wholly-owned subsidiary of Guangzhou Investment Company Ltd at the agreed price of HK\$3.08 to form part of the acquisition cost of Yue Xiu's Neo Metropolis Plaza units. For details, please refer to the circular dispatched on 4 February 2008.

## **CLOSURE OF REGISTER OF UNITHOLDERS**

The register of Unitholders will be closed from Wednesday, 22 October 2008 to Tuesday, 28 October 2008, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with GZI REIT's unit registrar, Tricor Investor Services Limited, of 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 21 October 2008.

# 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:

### **Acquisition of Yue Xiu Neo Metropolis Plaza Units and the issue of consideration units**

Pursuant to the agreement in the Offering Circular of GZI REIT, GZI REIT have a right of first refusal to acquire from Guangzhou Investment Company Ltd (GZI), a major unitholder of GZI REIT, certain commercial properties that fall within certain specified criteria, when GZI disposes of the same. We proposed to acquire 72.3% of the total floor area of Yue Xiu Neo Metropolis Plaza Units with a total area of approximately 61,964 square meters at a consideration of HK\$677.3 million. A circular dated 4 February 2008 in relation to the acquisition and certain related continuing connected transactions was dispatched to Unitholders.

The proposal was approved by the Unitholders at an Extraordinary General Meeting held on 26 February 2008. The completion of the acquisition took place on 1 June 2008.

The consideration payable in relation to the acquisition of approximately HK\$677.3 million (subject to adjustment payment to be made in accordance with the sale and purchase agreement) was satisfied by 1) approximately HK\$203.2 million by way of issue and allotment of the 65,972,687 Consideration Units on 2 June 2008 and 2) balance approximately HK\$474.1 million by way of payment in cash on 2 June 2008 as funded by a floating rate bridge loan facility with a connected person, The Hong Kong and Shanghai Banking Corporation Limited ("HSBC"), an associate of the Trustee.



## Leasing Transactions

Certain portions of City Development Plaza Units and Yue Xiu Neo Metropolis Plaza Units have been leased to connected parties (as defined in the REIT Code) of GZI REIT in relation to the Manager (“Manager Group”). Details are as follows:

Tenant	Location of unit	Relationship with GZI REIT	GFA (sq.m.)	Lease commencement/ renewal date	Monthly rent (RMB)	Monthly rent per sq.m. (RMB)	Rent free period (days)	Term (years)	Rent collected during 2008 Interim Period (HK\$) <sup>(1)</sup>
<b>City Development Plaza Units</b>									
Yicheng	1st storey	an associate of the Manager	97.0	1 May 2007	485	5	0	3	3,231
GZI	16th storey	a significant holder	1,060.5	1 Jan 2008	100,747	95	0	2	671,124
Guangzhou office of Yue Xiu	16th storey	a significant holder	46.1	1 Jan 2008	4,380	95	0	2	29,177
Guangzhou Xingye Real Estate Agent Co., Ltd. (“Xingye”)	24th storey	an associate of the Manager	818.07	1 Nov 2007	77,717	95	0	1.25	517,711
Sub-total:									1,221,243
<b>Yue Xiu Neo Metropolis Plaza Units</b>									
Guangzhou City Construction and Development Hongcheng Car Park Properties Management Co., Ltd. (“Hongcheng”) <sup>(2)</sup>	Basement 2nd, 3rd stories	an associate of the Manager	7,621.03	1 Jul 2007	83,333.33	11	180	3.9	74,532
Total:									1,295,775

(1) Conversion was made at the rate of RMB0.9007 to HK\$1.00.

(2) This lease was granted by Guangzhou Jieyacheng Properties Ltd before the signing of the sale and purchase agreement in respect of the equity interests in Metrogold, the SPV indirectly holding the Yue Xiu Neo Metropolis Plaza Units.

# Connected Party Transactions

## Property Management Agreements

On 7 December 2005, Partat, a wholly-owned subsidiary of GZI REIT, Guangzhou White Horse Clothings Market Ltd. (“White Horse JV”), a subsidiary of GZI and an associated company of the Manager, and Guangzhou Li Wan District Xi Jiao Villagers’ Committee appointed White Horse Company, a subsidiary of GZI and an associated company of the Manager, to manage the common areas in White Horse Building. On the same day, Partat and White Horse JV entered into another agreement with White Horse Company for the provision of property management services in respect of the portions of White Horse Building owned by Partat and White Horse JV for a period of three years from 19 October 2005 to 18 October 2008. Under this agreement, White Horse Company is entitled to collect a monthly property management fee charged at the rate of RMB50 per sq.m. of GFA comprised in the portions of White Horse Building owned by Partat and White Horse JV.

On 7 December 2005, Keen Ocean, a wholly-owned subsidiary of GZI REIT, and Guangzhou City Construction & Development Co. Ltd., a subsidiary of GZI and an associated company of the Manager, has appointed 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 owners committees of City Development Plaza and Fortune Plaza (each acting for and on behalf of all the owners and tenants of City Development Plaza and Fortune Plaza respectively) appointed Yicheng to manage the common areas in City Development Plaza and Fortune Plaza respectively. The agreement for City Development Plaza has already expired on 18 July 2007 and a new agreement was entered into on 19 July 2007 for a term of three years from 19 July 2007 to 18 July 2010. The agreement for Fortune Plaza has already expired on 30 June 2008 and a new agreement was entered into on 1 July 2008 for a term of two and a half years from 1 July 2008 to 31 December 2010. Under these agreements, Yicheng is entitled to collect a monthly property management fee charged at the rate of RMB25 per sq.m. and RMB35 per sq.m. for the office and commercial portions of Fortune Plaza’s GFA and City Development Plaza’s GFA respectively.

The owners committee of Yue Xiu Neo Metropolis Plaza (acting for and on behalf of all the owners and tenants of Yue Xiu Neo Metropolis Plaza) appointed Yicheng to manage the common areas in Yue Xiu Neo Metropolis Plaza. The agreement for Yue Xiu Neo Metropolis Plaza was entered into on 28 December 2007 for a term of three years from 1 May 2008 to 30 April 2011. Under these agreements, Yicheng is entitled to collect a monthly property management fee charged at the rate of RMB8 per sq.m. and RMB15 per sq.m. for the office and commercial portions of Yue Xiu Neo Metropolis Plaza respectively.

As the tenants of the Properties (and not the special purpose vehicles (as defined in the Offering Circular (“SPVs”)) pay the property management fees of Yicheng and White Horse Property Management Company as property managers of the Properties, therefore, 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, all 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.

Further to the acquisition of Yue Xiu Neo Metropolis Plaza, the Manager and Guangzhou Jieyacheng Properties Co. Ltd have entered into a tenancy services agreement for a term of 31 months from 1 June 2008 to 31 December 2010 in respect of the said property with Yicheng.

During the 2008 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 totaled approximately HK\$7,809,000.

## Trade Mark Licence Agreements

Six licence agreements, each dated 7 December 2005, have been entered into between Partat and White Horse Property Management Company pursuant to which White Horse Property Management Company has granted Partat the exclusive right to use six of its registered trademarks of different classes in the PRC with effect from the date of the agreement (i.e. 7 December 2005) 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 with effect from 21 December 2005, subject to early termination pursuant to the terms thereof.



# Connected Party Transactions

## Waiver from Strict Compliance

In connection with the acquisition of the equity interests in Metrogold, a waiver from strict compliance with the disclosure and approval requirements under Chapter 8 of the REIT Code in respect of the existing leasing transactions of GZI REIT, the existing property management arrangement and the tenancy services agreement of the existing properties, together with the new leasing transaction, the new property management arrangement and the new tenancy services agreement, as mentioned above, between the Group and persons which are connected with GZI REIT as a result of their connection with the Manager has been granted by the SFC on 21 February 2008, subject to annual limitation as to the capped value of such transactions, review by the auditors for each relevant financial period, annual review by the Audit Committee and the independent non-executive directors (“INED”) and other terms and conditions. For detailed terms and conditions of the waiver, please refer to the circular dispatched to Unitholders on 4 February 2008.

## 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 contractors for renovation works, was awarded the renovation contract for certain renovation works on levels 8 and 9 of the White Horse Units through a highly transparent tender process conducted by Guangzhou Construction Works Dealing Centre on 24 January 2006 in respect of certain renovation works on levels 8 and 9 of the White Horse Units.

Accordingly, the amount payable by Partat to GCCD Decoration pursuant to the terms of the renovation contract dated 26 January 2006 was RMB414,148.08 (i.e. approximately HK\$420,028.48), representing the difference between the total amount of all renovation works (i.e., RMB5,176,851.05 (i.e. approximately HK\$5,250,356.03)) and the sums directly payable by Partat to two independent sub-contractors (i.e. RMB4,762,702.97 (i.e. approximately HK\$4,830,327.56) in aggregate). On 30 June 2008, this payable amount is approximately RMB21,000.

GCCD Decoration and its associates (as defined in the REIT Code) have 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\$26,700,000 committed to be spent by GZI REIT on renovation and maintenance of the White Horse Building (as disclosed in the Offering Circular). Accordingly, no Unitholders’ approval was required for entering into the transaction.



## HSBC Group\*

(\*Note: “HSBC Group” means The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) and its subsidiaries and, unless expressly stated, shall not include the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee except those subsidiaries formed in its capacity as the trustee of GZI REIT)).

## Leasing Transactions

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

Tenant	Location of unit	GFA (sq.m.)	Lease commencement date	Monthly rent (RMB)	Monthly rent per sq.m. (RMB)	Rent free period (days)	Term (years)	Rent collected during 2008 Interim Period (HK\$) <sup>1</sup>
HSBC Software Development (Guangdong) Limited	4th storey	4,275.1	1 Feb 2008	372,575	87	0	3	2,542,792
	5th storey	4,275.1	1 Feb 2008	372,575	87	0	3	2,542,792
	3rd storey	2,000	1 Dec 2006	174,300	87	60	4.2	1,139,122
							Total:	6,224,706

1. Conversion at the rate of RMB0.9007 to HK\$1.00.

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 RMB745,150 for the first year, RMB782,428 for the second year and RMB821,504 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 (“Existing loan facility”) 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. For ensuring the performance of the obligations by the SPV under the loan on a pro rata and pari passu basis, a security package, including registered mortgage over each Property and shares of the SPV 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. On 31 December 2007, HSBC was one of the lending banks and acted as the agent and security agent of the lending banks. The facility of US\$63.9 million advanced by HSBC 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\$63.9 million/RMB516.5 million.

The SPVs’ obligations under the swap agreements are secured, pro rata and pari passu, 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 2008 Interim Period, interest payable to HSBC under the facility agreement by GZI REIT was approximately HK\$10,274,000.

## Connected Party Transactions

On 9 November 2007, a contract was signed with HSBC whereby the Manager appointed HSBC as to be the sole placement agent and sole bookrunner of the proposed issue and/or placement of a convertible bond in relation to the proposed acquisition and the financial adviser of GZI REIT for the acquisition of Yue Xiu Neo Metropolis Plaza Units. During the 2008 Interim Period, the total amount payable by GZI REIT to HSBC under the contract was approximately HK\$1,386,000.

The proposed acquisition has been approved by the Unitholders at an Extraordinary General Meeting convened after the Reporting Period on 26 February 2008.

### Ordinary Banking Services

REIT Holdco, Partat, Keen Ocean, Full Estates and Moon King have maintained interest bearing accounts with HSBC at arm's length and on commercial terms for deposits during the 2008 Interim Period. Metrogold has maintained interest bearing accounts with HSBC at arm's length and on commercial terms during the 2008 Interim Period.

On 1 June 2008, Metrogold entered into a facility agreement with HSBC for a floating rate bridge loan facility of HK\$485 million which was fully drawn down on 2 June 2008. Interest under the loan facility is payable quarterly at a rate of 0.75% per annum above HIBOR, and the principal will be payable in one lump sum on the final maturity date which is on 19 December 2008. Moreover, Metrogold paid an upfront fee in an amount of HK\$1,018,000 to HSBC.

### Waiver from Strict Compliance

A waiver from strict compliance with the disclosure requirement and Unitholders' approval 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 auditors for each relevant financial period, annual review by the Audit Committee and the INEDs and other terms and conditions. Details of the Waiver and its terms and 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 or from GZI REIT than terms available from or to (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 on corporate finance transaction with the HSBC Group

Both the Manager and the Trustee have confirmed that there is no corporate finance transaction nor other connected transaction (save for those disclosed above) with the HSBC Group during the 2008 Interim Period.



## Manager's Fees

During the 2008 Interim Period, the aggregate amount of fees payable by GZI REIT to the Manager under the Trust Deed was approximately HK\$13,423,000.

## Trustee's Fees

During the 2008 Interim Period, the aggregate amount of fees payable by GZI REIT to the Trustee under the Trust Deed was approximately HK\$800,000.

## Principal Valuer's Fees

During the 2008 Interim Period, the aggregate amount of fees payable by GZI REIT to the Principal Valuer was HK\$205,000.

## Interests held by the Manager and its Directors and Chief Executive Officer

The REIT Code requires that connected persons of GZI REIT shall disclose their interests in Units. In addition, under the provisions of Part XV of the SFO, the Trust Deed is also deemed to be applicable, among other things, to the Manager, the Directors and the Chief Executive of the Manager.

The interests and short positions held by Directors and Chief Executive Officer of the Manager in the Units required to be recorded in the register kept 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 2008		As at 30 June 2008		% 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.

# Connected Party Transactions

## HOLDINGS OF SIGNIFICANT HOLDERS

The following persons have interests or short position in the Units required to be recorded in the register 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 2008		As at 30 June 2008		% Change of interest
		Interests in Units	Approximate % of interest	Interests in Units	Approximate % of interest	
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") <sup>1</sup>	Beneficial	27,320	0%	27,320	0%	—
	Deemed	325,959,760	32.60%	391,932,447	36.77%	4.17%
	<b>Total</b>	<b>325,987,080</b>	<b>32.60%</b>	<b>391,959,767</b>	<b>36.77%</b>	<b>4.17%</b>
GZI <sup>2</sup>	Beneficial	—	—	—	—	—
	Deemed	313,280,495	31.32%	379,253,182	35.58%	4.26%
	<b>Total</b>	<b>313,280,495</b>	<b>31.32%</b>	<b>379,253,182</b>	<b>35.58%</b>	<b>4.26%</b>
Dragon Yield Holdings Limited ("Dragon Yield")	Beneficial	313,280,495	31.32%	379,253,182	35.58%	4.26%
	Deemed	—	—	—	—	—
	<b>Total</b>	<b>313,280,495</b>	<b>31.32%</b>	<b>379,253,182</b>	<b>35.58%</b>	<b>4.26%</b>

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	100.00	N	321,215,530	Nil
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.00	N	379,253,182	Nil
Bosworth International Limited	Excellence Enterprises Co., Ltd.	100.00	Y	5,698,282	—
Guangzhou Investment Company Limited	Bosworth International Limited	34.98	N	379,253,182	Nil
Dragon Yield	GZI	100.00	Y	379,253,182	Nil
Sun Peak Enterprises Ltd.	Excellence Enterprises Co., Ltd.	100.00	N	1,414,207	—
Novena Pacific Limited	Sun Peak Enterprises Ltd.	100.00	Y	1,414,207	—
Shine Wah Worldwide Limited	Excellence Enterprises Co., Ltd.	100.00	N	395,122	—
Morrison Pacific Limited	Shine Wah Worldwide Limited	100.00	Y	395,122	—



Name of Controlled Corporation	Name of Controlling Shareholder	% Control	Direct interest (Y/N)	Number of Shares	
				Long Position	Short Position
Perfect Goal Development Co., Ltd.	Excellence Enterprises Co., Ltd	100.00	N	339,342	—
Greenwood Pacific Limited	Perfect Goal Development	100.00	Y	339,342	—
Seaport Development Limited	Excellence Enterprises Co., Ltd.	100.00	N	88,082	—
Goldstock International Limited	Seaport Development Limited	100.00	Y	88,082	—
Yue Xiu Finance Company Limited	Yue Xiu	100.00	Y	4,744,230	—

2. The deemed interest in 379,253,182 Units were held through Dragon Yield, a 100% owned subsidiary.

## HOLDINGS OF OTHER CONNECTED PERSONS

### Senior Executives of the Manager

Interests in the Units held by senior executives of the Manager, being connected persons of GZI REIT, are set out below:

Name of Senior Executive	Nature of interest	As at 1 January 2008		As at 30 June 2008		% Change of interest
		Interests in Units	Approximate % of interest	Interests in Units	Approximate % of interest	
Mr. Cheng Jiuzhou <sup>(1)</sup>	Personal	480	0%	480	0%	—
Mr. Ip Wing Wah	Personal	1,900	0%	1,900	0%	—
Ms. Ou Hai Jing	Personal	1,000	0%	1,000	0%	—

<sup>(1)</sup> Mr. Cheng Jiuzhou resigned as Deputy CEO and Head of Asset Management on 1 July 2008 and Ms. Chen Huiqing was appointed as Head of Asset Management on 1 July 2008.

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 2008.

### Unit Options

During the 2008 Interim Period, GZI REIT or any of its controlled entities was not a party to any arrangements enabling the Directors of the Manager (including, their spouses and children under 18 years of age) to benefit through acquiring the Units in GZI REIT or any fund units of other legal entities or any derivatives of equities.



# Review Report of the Independent 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 (as the “MANAGER” of GZI REAL ESTATE INVESTMENT TRUST)

### INTRODUCTION

We have been engaged by the Manager to review the interim financial information of GZI Real Estate Investment Trust (“GZI REIT”) set out on pages 27 to 48, which comprises the condensed consolidated balance sheet of GZI REIT and its subsidiaries (together, the “Group”) as at 30 June 2008 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 these 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, 25 August 2008

# Condensed Consolidated Interim Balance Sheet

As at 30 June 2008

	Note	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	4	11,331	8,897
Investment properties	5	5,839,835	4,695,536
Deferred assets	6	36,569	21,123
Goodwill	7	182,243	169,835
		<u>6,069,978</u>	<u>4,895,391</u>
<b>Current assets</b>			
Tax recoverable		867	—
Prepayments, deposits and other receivables	8	6,776	6,277
Cash and cash equivalents	9	368,044	290,153
		<u>375,687</u>	<u>296,430</u>
<b>Total assets</b>		<u>6,445,665</u>	<u>5,191,821</u>
<b>Current liabilities</b>			
Rental deposits, current portion	12	11,044	12,716
Receipts in advance	12	15,258	13,809
Accruals and other payables	12	69,689	34,791
Derivative financial instruments	13	267,681	221,945
Bank borrowings, secured	14	1,769,341	1,280,605
Due to related companies	23	15,503	15,463
		<u>2,148,516</u>	<u>1,579,329</u>
<b>Non-current liabilities, other than net assets attributable to unitholders</b>			
Rental deposits, non-current portion	12	98,855	77,948
Deferred tax liabilities	11	80,819	—
		<u>179,674</u>	<u>77,948</u>
<b>Total liabilities, other than net assets attributable to unitholders</b>			
		<u>2,328,190</u>	<u>1,657,277</u>
Net assets attributable to unitholders	15	4,117,475	3,534,544
<b>Total liabilities</b>		<u>6,445,665</u>	<u>5,191,821</u>
<b>Net assets</b>		<u>—</u>	<u>—</u>

# Condensed Consolidated Interim Balance Sheet

As at 30 June 2008

	Note	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
<b>Equity</b>			
Hedging reserve	10	(34,511)	(83,841)
Retained earnings		34,511	83,841
<b>Total equity</b>		<u>          —</u>	<u>          —</u>
<b>Net current liabilities</b>		<u>(1,772,829)</u>	<u>(1,282,899)</u>
<b>Total assets less current liabilities</b>		<u>4,297,149</u>	<u>3,612,492</u>
Units in issue ('000)		<u>1,065,973</u>	<u>1,000,000</u>
Net assets attributable to unitholders per unit		<u>HK\$3.86</u>	<u>HK\$3.53</u>

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

The notes on pages 33 to 48 are an integral part of this condensed interim financial information.

# Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 (Unaudited) HK\$'000	Six months ended 30 June 2007 (Unaudited) HK\$'000
Revenue – rental income		232,121	196,048
Operating expenses	16	(67,794)	(63,076)
Operating profit		164,327	132,972
Fair value gain on investment properties		99,896	—
Interest income from bank deposits		2,792	3,657
Finance costs – excluding amounts attributable to unitholders	18	(29,080)	(25,894)
Profit before tax and transactions with unitholders		237,935	110,735
Income tax expenses	19	(11,127)	—
Profit after tax before transactions with unitholders		226,808	110,735
Change in net assets attributable to unitholders	15	276,138	124,751
Amount arising from cash flow hedging reserve movement		(49,330)	(14,016)
		226,808	110,735

## Notes:

- (i) In accordance with the Trust Deed dated 7 December 2005 (the “Trust Deed”), GZI REIT is required to distribute to unitholders not less than 90% distributable income for each financial period. GZI REIT has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash dividends and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of GZI REIT less any liabilities, in accordance with unitholders’ proportionate interests in GZI REIT at the date of the termination of GZI REIT. The unitholders’ funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32, Financial Instruments: Disclosure and Presentation. Consistent with unitholders’ funds being classified as a financial liability, the distributions to unitholders are part of finance costs which are recognised in the income statement. The classification does not have an impact on the net assets attributable to the unitholders. It only affects how unitholders’ funds are disclosed in the balance sheet and how distributions are disclosed in the income statement. Distributable income is determined in the Distribution Statement on page 31.
- (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 20.

The notes on pages 33 to 48 are an integral part of this condensed interim financial information.

# Condensed Consolidated Interim Statement Of Changes In Equity

For the six months ended 30 June 2008

	<b>Hedging reserve (Note 10) HK\$'000</b>	<b>Retained earnings HK\$'000</b>	<b>Total HK\$'000</b>
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>
Balance at 1 January 2008	(83,841)	83,841	—
Change in fair value of cash flow hedges	49,330	—	49,330
Result for the period	—	(49,330)	(49,330)
	<u>(34,511)</u>	<u>34,511</u>	<u>—</u>
Balance at 30 June 2008	<u>(34,511)</u>	<u>34,511</u>	<u>—</u>

The notes on pages 33 to 48 are an integral part of this condensed interim financial information.

# Distribution Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 (Unaudited) HK\$'000	Six months ended 30 June 2007 (Unaudited) HK\$'000
Profit after tax before transactions with unitholders		226,808	110,735
Adjustments for the total distributable income (i)			
– Fair value gain on investment properties		(99,896)	—
– Deferred taxation charged to the income statement		10,177	—
– Exchange gain on bank borrowings		(5,537)	—
Total distributable income		131,552	110,735
Distributable amount at 1 January		115,193	103,426
Distribution paid during the period (ii)	15	(115,100)	(103,400)
Distributable amount at 30 June		<u>131,645</u>	<u>110,761</u>
Interim distribution declared		<u>131,541</u>	<u>110,700</u>
Distribution per unit, declared		<u>HK\$0.1234</u>	<u>HK\$0.1107</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.
- (ii) A distribution of HK\$0.1151 per Unit, totaling HK\$115,100,000, was paid to unitholders on 20 May 2008.



# Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2008

	Note	Six months ended 30 June 2008 (Unaudited) HK\$'000	Six months ended 30 June 2007 (Unaudited) HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations		179,113	134,104
Interest paid		(23,663)	(21,674)
Income tax paid		(2,545)	—
Net cash flows from operating activities		<u>152,905</u>	<u>112,430</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired	21	(452,045)	—
Purchase of property, plant and equipment		(3,244)	(365)
Additions of investment properties		(1,135)	(1,634)
Interest received		2,792	3,657
Net cash flows from investing activities		<u>(453,632)</u>	<u>1,658</u>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings, net of transaction costs		483,832	—
Distribution paid		(115,100)	(103,400)
Net cash flows from financing activities		<u>368,732</u>	<u>(103,400)</u>
<b>Net increase in cash and cash equivalents</b>		<b>68,005</b>	<b>10,688</b>
Exchange difference		9,886	7,954
Cash and cash equivalents at beginning of the period		<u>290,153</u>	<u>253,846</u>
Cash and cash equivalents at end of the period		<u><u>368,044</u></u>	<u><u>272,488</u></u>

The notes on pages 33 to 48 are an integral part of this condensed interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

## 1 GENERAL INFORMATION

GZI Real Estate Investment Trust (“GZI REIT”) and its subsidiaries (together, 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 (as amended by the Supplemental Deed dated 25 March 2008) 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. This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Manager on 25 August 2008.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six-month period ended 30 June 2008 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 condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

At 30 June 2008, the Group’s current liabilities exceed its current assets by HK\$1,772,829,000 (31 December 2007: HK\$1,282,899,000) mainly as the bank borrowings of HK\$1,769,341,000 and the derivative financial instruments of HK\$267,681,000 fall due within twelve months of the balance sheet date. The Manager believes that the Group will continue as a going concern and consequently prepared the condensed consolidated interim financial information on a going concern basis. This basis assumes that the Group is able to refinance the bank borrowings before or upon the due date.

## 3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not relevant for the Group.

- HK(IFRIC) – Int 11, ‘HKFRS 2 – Group and treasury share transactions’;
- HK(IFRIC) – Int 12, ‘Service concession arrangements’;
- HK(IFRIC) – Int 14, ‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’.

# Notes to the Condensed Consolidated Interim Financial Information

## 3 ACCOUNTING POLICIES (Continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKAS 1 (Revised), 'Presentation of financial statements', effective for annual periods beginning on or after January 2009;
- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009;
- HKAS 23 (Revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009;
- HKFRS 2 (amendment) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009;
- HKFRS 3 (Revised), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009;
- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009;
- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008.

The Group will adopt the above when they become effective. The Manager is in the process of assessing the impact of adopting the above to the consolidated financial statements of the Group.

## 4 PROPERTY, PLANT AND EQUIPMENT

	<b>Construction in progress</b>	<b>Machinery and tools</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>Six months ended 30 June 2007</b>			
Opening net book amount	—	9,775	9,775
Additions	—	365	365
Depreciation	—	(1,122)	(1,122)
Exchange difference	—	332	332
	<u>—</u>	<u>9,350</u>	<u>9,350</u>
Closing net book amount	—	9,350	9,350
<b>Six months ended 30 June 2008</b>			
Opening net book amount	—	8,897	8,897
Additions	3,070	174	3,244
Depreciation	—	(1,355)	(1,355)
Exchange difference	—	545	545
	<u>3,070</u>	<u>8,261</u>	<u>11,331</u>
Closing net book amount	3,070	8,261	11,331

# Notes to the Condensed Consolidated Interim Financial Information

## 5 INVESTMENT PROPERTIES

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Beginning of the period	4,695,536	4,240,071
Additions	1,135	1,634
Acquisition of subsidiary (Note 21)	730,255	—
Fair value gain	99,896	—
Exchange difference	313,013	151,682
End of the period	<u>5,839,835</u>	<u>4,393,387</u>

The investment properties are located in China and held on land use rights of 40 years to 50 years, expiring in 2045 through 2055. The investment properties were revalued at 30 June 2008 by Colliers International (Hong Kong) Limited, an independent professional valuer. Valuations were performed using discounted cash flow projections based on estimates of future cash flows, derived from the terms of any existing lease and other contracts, and from external evidence such as current market rents for similar properties in the same location and condition, and discounted to reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

In the condensed consolidated interim income statement, direct operating expenses include HK\$145,298 (2007: HK\$657,690) relating to investment properties that were vacant.

As at 30 June 2008, investment properties of approximately HK\$5,062,582,000 were pledged as collateral for the Group's bank borrowings (Note 14).

## 6 DEFERRED ASSETS

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

# Notes to the Condensed Consolidated Interim Financial Information

## 7 GOODWILL

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Opening net book amount	169,835	158,290
Acquisition of subsidiary (Note 21)	1,482	-
Exchange difference	10,926	5,662
	<u>182,243</u>	<u>163,952</u>
Closing net book amount	<u>182,243</u>	<u>163,952</u>
Cost	182,243	163,952
Accumulated impairment	—	—
	<u>182,243</u>	<u>163,952</u>

### Impairment test for goodwill

For the purpose of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period.

Cash flow beyond the three-year period are extrapolated using the estimated growth rate stated below. 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	5%
Discount rate	4.15%

These assumptions have been used for the analysis of the cash-generating units. The Manager prepared the financial budgets reflecting actual and prior year performance and market development expectations. The Manager estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the cash-generating units. 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 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

All prepayments, deposits and other receivables are denominated in Renminbi.

## 9 CASH AND CASH EQUIVALENTS

As at 30 June 2008, included in the cash and cash equivalents are bank deposits of approximately HK\$229,421,000 (31 December 2007: HK\$205,381,000) 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.

The remaining balances of cash and cash equivalents are denominated in Hong Kong dollars.

## 10 HEDGING RESERVE

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Beginning of the period	(83,841)	(35,608)
Cash flow hedges:		
– Fair value losses (Note 13)	(30,728)	(17,167)
– Recognised as finance costs (Note 18)	80,058	31,183
	<hr/>	<hr/>
End of the period	<b>(34,511)</b>	(21,592)
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Condensed Consolidated Interim Financial Information

## 11 DEFERRED TAX LIABILITIES

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	<u><b>80,819</b></u>	<u>—</u>

The movements in deferred tax liabilities during the period are as follows:

	<b>Fair value gains HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
Beginning of the period	—	—	—
Acquisition of subsidiary (Note 21)	64,873	4,714	69,587
Charged to the income statement (Note 19)	9,881	296	10,177
Exchange differences	993	62	1,055
	<u>75,747</u>	<u>5,072</u>	<u>80,819</u>

There is no material unprovided deferred taxation as at 30 June 2008.



# Notes to the Condensed Consolidated Interim Financial Information

## 12 RENTAL DEPOSITS, RECEIPTS IN ADVANCE AND ACCRUALS AND OTHER PAYABLES

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Rental deposits		
Current portion	<b>11,044</b>	12,716
Non-current portion	<b>98,855</b>	77,948
	<b>109,899</b>	90,664
Receipts in advance	<b>15,258</b>	13,809
Provision for withholding tax payable	<b>13,058</b>	6,440
Provision for business tax and flood prevention fee	<b>4,804</b>	4,022
Construction fee payables	<b>9,465</b>	—
Accruals for operating expenses	<b>42,362</b>	24,329
Accruals and other payables	<b>69,689</b>	34,791
	<b>194,846</b>	139,264

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

All rental deposits, accruals and other payables are denominated in Renminbi.

# Notes to the Condensed Consolidated Interim Financial Information

## 13 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Interest rate and currency swaps - cash flow hedges		
Beginning of the period	221,945	77,578
Fair value losses (Note 10)	30,728	17,167
Exchange difference	15,008	3,058
End of the period	<u>267,681</u>	<u>97,803</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.

### Interest rate and currency swaps

The notional principal amounts of the outstanding interest rate and currency swap contracts at 30 June 2008 were US\$165,000,000 (31 December 2007: US\$165,000,000).

At 30 June 2008, 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 United States 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 2008 will be continuously released to the income statement until the repayment of the secured bank borrowings.

# Notes to the Condensed Consolidated Interim Financial Information

## 14 Bank borrowings, secured

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Current	<u><u>1,769,341</u></u>	<u><u>1,280,605</u></u>

Bank borrowings include amounts totalling HK\$1,285,342,000 denominated in United States dollars and secured by investment properties with net book amounts of approximately HK\$5,060,582,000. The remaining balances of bank borrowings are denominated in Hong Kong dollars.

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

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 1 year	<u><u>1,769,341</u></u>	<u><u>1,280,605</u></u>

The effective interest rate of the bank borrowings at the balance sheet date was 4.15% (31 December 2007: 6.26%). The carrying amounts of the borrowings approximate their fair values.

The Group has no undrawn borrowing facilities as at 30 June 2008 (31 December 2007: Nil).

## 15 Net assets attributable to unitholders

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Beginning of the period	3,534,544	3,199,707
Issuance of units	191,320	—
Transfer from income statement	276,138	124,751
Distribution paid during the period	(115,100)	(103,400)
Exchange difference	230,573	113,482
End of the period	<u><u>4,117,475</u></u>	<u><u>3,334,540</u></u>

# Notes to the Condensed Consolidated Interim Financial Information

## 16 Expenses by nature

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Property management fee (i)	7,810	6,524
Urban real estate tax	5,713	5,219
Business tax and flood prevention fee	11,810	9,979
Withholding tax (ii)	22,949	18,758
Depreciation of property, plant and equipment	1,355	1,122
Asset management fee	13,423	11,883
Trustee's remuneration	799	702
Valuation fee	100	100
Legal and professional fee	1,000	1,738
Auditor's remuneration	825	750
Bank charges	14	31
Others	1,996	6,270
	<u>67,794</u>	<u>63,076</u>
Total operating expenses	<u>67,794</u>	<u>63,076</u>

Note:

- (i) The Group received leasing, marketing and tenancy management services from two leasing agents, namely, Guangzhou Yicheng Property Management Ltd. and Guangzhou White Horse Property Management Co. Ltd (Note 23).
- (ii) Withholding tax on the rental income and interest income in China is calculated based on the rental income and interest income at a rate of 10 per cent.

## 17 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

## 18 Finance costs

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Interest expense for bank borrowings	29,019	25,753
Net foreign exchange transaction gains	(79,997)	(31,042)
Transfer from hedging reserve (Note 10)		
– interest rate and currency swaps: cash flow hedge	<b>80,058</b>	31,183
	<u>29,080</u>	<u>25,894</u>

## 19 Income tax expenses

Since the newly acquired subsidiary carries out its operation through a sino-foreign co-operative joint venture in China, it is subject to corporate income tax at a rate of 25% in the current period.

For other subsidiaries with operations in China, the corporate income tax was paid by way of withholding tax as disclosed in Note 16(ii).

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

	<b>Six months ended 30 June 2008 (Unaudited) HK\$'000</b>
Current income tax	
– Hong Kong profits tax	—
– China enterprise income taxation	950
Deferred income tax (Note 11)	<b>10,177</b>
	<u>11,127</u>

# Notes to the Condensed Consolidated Interim Financial Information

## 20 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 2008 is approximately HK\$0.2245 (June 2007: HK\$0.1107). The calculation of earnings per unit is based on profit after tax before transactions with unitholders of approximately HK\$226,808,000 (2007: HK\$110,735,000) and on average units in issue of 1,010,512,131 units (2007: 1,000,000,000 units) during the period.

Diluted earnings per unit is not presented as there is no dilutive instrument for the six months ended 30 June 2008.

## 21 Business combinations

On 1 June 2008, the Group acquired 100% of the issued share capital and shareholder's loans of Metrogold Development Limited, a company that is principally engaged in leasing of commercial properties in China.

The acquired business contributed revenue of approximately HK\$4,566,000, fair value gain on investment properties of HK\$39,523,000 and net profit of HK\$36,382,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue and consolidated profit after tax before transactions with unitholders for the six-month period ended 30 June 2008 would have increased by HK\$19,298,000 and HK\$25,425,000 respectively.

Details of net assets acquired and goodwill are as follows:

	HK\$'000
Purchase considerations:	
– Cash paid/payable	
– as purchase consideration	472,201
– as direct costs attributable to the acquisition	7,360
– Fair value of units issued as purchase consideration	191,320
	<hr/>
<b>Total purchase consideration</b>	670,881
– Fair value of net identifiable assets acquired (see below)	(195,943)
– Carrying amounts of shareholder's loans	(473,456)
	<hr/>
Goodwill (Note 7)	1,482
	<hr/> <hr/>

# Notes to the Condensed Consolidated Interim Financial Information

## 21 Business combinations (Continued)

The assets and liabilities arising from the acquisition are as follows:

Fair value and acquiree's carrying amount

	HK\$'000
Investment properties	730,255
Deferred assets	9,504
Prepayments, deposits and other receivables	451
Cash and cash equivalents	29,439
Rental deposits	(10,108)
Receipts in advance	(1,642)
Construction fee payables, accruals and other payables	(18,185)
Shareholder's loans	(473,456)
Current income tax liabilities	(728)
Deferred tax liabilities	(69,587)
	<hr/>
Net identifiable assets acquired	195,943
	<hr/> <hr/>
Outflow of cash to acquire business, net of cash and cash equivalents acquired:	
– cash consideration	474,124
– direct costs attributable to the acquisition	7,360
Cash and cash equivalents in subsidiary acquired	(29,439)
	<hr/>
Cash outflow on acquisition	452,045
	<hr/> <hr/>

## 22 Capital commitments

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Capital commitments in respect of property, plant and equipment, contracted but not provided for	7,863	478
Capital commitments in respect of investment properties, contracted but not provided for	2,164	1,263
	<hr/>	<hr/>
	<b>10,027</b>	1,741
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Condensed Consolidated Interim Financial Information

## 23 Connected party transactions and significant related party transactions and balances

As at 30 June 2008, the Group was significantly influenced by Guangzhou Investment Company Limited (incorporated in Hong Kong), which owns approximately 36% of GZI REIT's units. The remaining approximately 64% 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 2008:

<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 Construction & Development Holdings (China) Limited ("GCD Holding") #	A subsidiary of GZI
Guangzhou City Construction & Development Ltd. ("GCCD") #	A subsidiary of GZI
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV") #	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd. ("Yicheng") #	A subsidiary of GZI
Guangzhou White Horse Property Management Co. Ltd # ("White Horse PM")	A subsidiary of GZI
Guangzhou City Construction & Development Xingye Property Agent Ltd. # ("GCCD Xingye Property Agent")	A subsidiary of GZI
Guangzhou City Construction and Development Decoration Ltd. ("GCCD Decoration") #	A subsidiary of GZI
Yue Xiu Enterprises (Holdings) Limited # ("Yue Xiu")	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

## 23 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 2008 (Unaudited) HK\$'000</b>	Six months ended 30 June 2007 (Unaudited) HK\$'000
Asset management fee paid/payable to the Manager (ii)	(13,423)	(11,883)
Management fee paid/payable to Yicheng	(3,403)	(2,570)
Management fee paid/payable to White Horse PM	(4,406)	(3,954)
Rental income received/receivable from GCCD Xingye Property Agent	518	1,000
Rental income received/receivable from GZI	671	581
Rental income received/receivable from Yue Xiu	29	25
Rental income received/receivable from Yicheng	3	3
Trustee fee paid/payable to the Trustee	(800)	(702)
Valuation fee paid/payable to the Valuer	(205)	(100)
Transactions with the HSBC Group		
– Interest expense paid/payable to the HSBC Group (iii)	(10,274)	(8,340)
– Rental income received/receivable from the HSBC Group	6,225	5,166
– Interest income from the HSBC Group	1,116	2,338
– Annual arrangement fees on the borrowings paid/payable to the HSBC Group	(1,198)	—
– Professional fee paid/payable to HSBC Group	(1,386)	—
	<u>          </u>	<u>          </u>

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 13.

# Notes to the Condensed Consolidated Interim Financial Information

## 23 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:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Balance with GZI		
Amount due to GZI	(577)	—
Balance with Yicheng		
Amount due to Yicheng	(754)	(496)
Balance with White Horse PM		
Amount due to White Horse PM	(750)	(687)
Balance with the Manager		
Amount due to the Manager	<u>(13,422)</u>	<u>(14,280)</u>

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

## 24 Future minimum rental receivables

At 30 June 2008, the Group had future minimum rental receivables under non-cancellable leases as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Not later than one year	504,470	394,428
Later than one year and not later than five years	753,496	667,070
Later than five years	90,923	50,052
	<u>1,348,889</u>	<u>1,111,550</u>

## Performance Table

	<b>30 June 2008</b>	30 June 2007
Net assets attributable to unitholders	<b>HK\$4,117,475,000</b>	HK\$3,334,540,000
Net assets attributable to unitholders per unit	<b>HK\$3.86</b>	HK\$3.335
The highest premium of the traded price to net asset value (i)	—	—
The highest discount of the traded price to net asset value (i)	<b>HK\$1.110</b>	HK\$0.335
Net yield per unit (ii)	<b>7.96%</b>	3.59%
Number of units in issue	<b>1,065,972,687 units</b>	1,000,000,000 units

Note:

- (i) The highest premium is calculated based on the highest traded price of HK\$3.3 on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) during the period from 1 January 2008 to 30 June 2008. The highest discount is calculated based on the lowest traded price of HK\$2.75 (2007: HK\$3.00) on the Stock Exchange during the period from 1 January 2008 to 30 June 2008. Since the highest traded price during the six months ended 30 June 2008 was HK\$3.3, which was lower than the net asset value as at 30 June 2008, no premium of the traded price to net asset value was presented for 30 June 2008.
- (ii) Net yield per unit is calculated based on profit after tax before transactions with Unitholders per unit for the period from 1 January 2008 to 30 June 2008 over the traded price on the Stock Exchange of HK\$2.82 (2007: HK\$3.08) as at 30 June 2008.

# 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



## **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:

Mr KWAN Chi Fai, Terry

Telephone: (852) 2828 3692

Facsimile: (852) 2519 6473

Email: [terry@gzireit.com.hk](mailto:terry@gzireit.com.hk)



管理人



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

24/F., Yue Xiu Building,  
160 Lockhart Road, Wanchai, Hong Kong  
香港灣仔洛克道160號越秀大廈24樓

TEL 電話 (852) 28283692  
FAX 傳真 (852) 25196473