1 BASIS OF PREPARATION

GZI Real Estate Investment Trust ("GZI REIT") and its subsidiaries (collectively referred to as the "Group") mainly engaged in the leasing of commercial properties in the People's Republic of China ("the PRC").

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

GZI REIT was listed on the Hong Kong Stock Exchange on 21 December, 2005.

These financial statements are presented in thousands of Units of HK dollars (HK$'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors of the Manager on 18 April, 2006.

The financial statements of GZI REIT have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss and the Units issued to Unitholders, which are carried at fair value.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January, 2006 or later periods but which the Group have not early adopted, are as follows:

- **HKAS 19 (Amendment), Employee Benefits (effective from 1 January, 2006).** This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not have defined benefits scheme, HKAS 19 (Amendment) is not relevant to the Group's operations.

- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January, 2006).** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group do not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December, 2005.

- **HKAS 39 (Amendment), The Fair Value Option (effective from 1 January, 2006).** This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Manager believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January, 2006.

1 BASIS OF PREPARATION (Continued)

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

- **HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January, 2006).** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Manager considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- **HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January, 2006).** These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- **HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January, 2006).** HKFRS 6 is not relevant to the Group's operations.

- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January, 2007).** HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Manager assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January, 2007.

- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January, 2006).** HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Manager is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January, 2006).** HKFRS-Int 5 is not relevant to the Group's operations.

- **HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 1 December, 2005).** HK(IFRIC)-Int 6 is not relevant to the Group's operations.

- **HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March, 2006).** HK(IFRIC)-Int 7 is not relevant to the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

(a) Basis of consolidation

Subsidiaries are those entities in which GZI REIT, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. Where GZI REIT, directly or indirectly, otherwise controls an entity, including special purpose entities as described in HKAS – Int 12, by way of having the power to govern its financial and operating policies so that GZI REIT obtains benefits from these activities, such controlled entities are not included in the consolidated financial statements except by way of note disclosure to show the effect on the consolidated financial statements had such controlled entities been included.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In GZI REIT's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by GZI REIT on the basis of dividends received and receivable.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Group is mainly engaged in leasing of commercial properties in China, accordingly, there is one business and geographical segment for the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi, the functional currency of the Group, at exchange rates prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated to Renminbi, at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

Hong Kong dollars are used as the presentational currency of the consolidated financial statements for the convenience of the financial statement readers. For the purpose of translating the consolidated financial statements from Renminbi to Hong Kong dollars, all assets and liabilities of the Group are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and all income and expense items at the average applicable rates during the period. All resulting exchange differences are dealt with as movements of reserves.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Machinery and tools	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(e) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investment properties (Continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested for impairment and are revised for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivatives as hedges of a particular risk associated with a recognised asset or liability as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) - net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other gains/(losses) - net'.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the rental receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Rental deposits

Rental deposits are financial liabilities with fixed or determinable repayments. They arise when the Group enters into lease agreement directly with tenants. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current liabilities.

Rental deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. At initial recognition, the difference between the carrying amount of the financial liability and the actual consideration received are treated as initial premiums and recognised as rental income over the lease term, on a straight-line basis.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Revenue recognition

Revenue comprises the fair value for the consideration received or receivable for rental income in the ordinary course of the Group's activities. Revenue is recognised as follows:

(i) Operating lease rental income is recognised on a straight-line basis over lease period of the lease. When the Group provides incentives to its tenants, the cost of incentives will be recognised over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and operating lease rental recognised over the lease term is recognised as deferred assets.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

(p) Formation expenses

Formation expenses are recognised in the income statement as incurred.

(q) Distributions to Unitholders

In accordance with the Trust Deed, GZI REIT is required to distribute to Unitholders not less than 90% of the Group's profit for each financial period/year subject to adjustments allowed under the REIT Code and the Trust Deed. The Units are therefore classified as financial liabilities in accordance with HKAS 32 and, accordingly, the distributions paid to Unitholders represent finance costs and are therefore presented as expenses in the income statement. Consequently, GZI REIT has recognised distributions as finance costs in the income statement.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: price risk, foreign exchange risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Price risk

The Group is exposed to property price and market rental risk because investment properties are carried at fair value. Any change in fair values is recognised in the income statement.

(ii) Foreign exchange risk

The Group operates in China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars as certain of the general and administrative expenses are settled in Hong Kong dollars.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the China government.

The Group entered into a Facility Agreement in connection with a loan facility denominated in US dollars with a maturity period of three years. To manage the foreign currency risk arising from this foreign currency borrowing, the Group entered into a US dollars/Renminbi non-deliverable swap facility to hedge its foreign exchange risk arising from the borrowings.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of rental receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. The Manager is of the opinion that credit risk of rental receivables are fully covered by the rental deposits from corresponding tenants.

Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(iv) Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group managed its cash flow interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deferred assets, rental receivables, prepayments, deposits and other receivables and financial liabilities including receipts in advance, accruals and other payables and amounts due to related companies approximate their fair values due to their short maturities.

3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

4 CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the directors of the Manager determine the amount within a range of reasonable fair value estimates. In making its judgement, the directors of the Manager consider information from a variety of sources including:

a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The directors of the Manager use assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the directors of the Manager and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

4 CRITICAL ACCOUNTING ESTIMATES (Continued)

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

5 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Machinery and tools HK$'000
For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005	
Opening net book amount	—
Acquisition of subsidiaries (Note 23)	**3,415**
Depreciation	**(20)**
Closing net book amount	**3,395**
At 31 December, 2005	
Cost	**3,415**
Accumulated depreciation	**(20)**
Net book amount	**3,395**

6 INVESTMENT PROPERTIES - GROUP

	HK$'000
Beginning of the period	—
Acquisition of subsidiaries (Note 23)	**4,053,800**
End of the period	**4,053,800**

The investment properties were located in China held on land use rights of 40 years to 50 years, expiring in 2047 through 2055.

The investment properties were revalued at 31 December, 2005 by Colliers International (Hong Kong) Limited, independent professional qualified valuers. 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 using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

6 INVESTMENT PROPERTIES - GROUP (Continued)

In the consolidated income statement, direct operating expenses include HK$54,000 relating to investment properties that were vacant.

As at 31 December, 2005, all investment properties were pledged as collateral for the Group's bank borrowings (Note 15).

7 INVESTMENT IN SUBSIDIARIES

	31 December, 2005 HK$'000
Investments, at cost:	
Unlisted shares	2,986,652

The following is a list of the principal subsidiaries at 31 December, 2005:

Name	Place of establishment and kind of legal entity	Principal activities and place of operations	Particulars of issued share capital	Interest held (Note)
GZI REIT (Holding) 2005 Company Limited ("HoldCo")	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Partat Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%
Moon King Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%
Full Estates Investment Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%
Keen Ocean Limited	British Virgin Islands, limited liability company	Leasing of commercial properties in China	1 ordinary share of US$1 each	100%

Note: Share of HoldCo is held directly by GZI REIT. Shares of all the other subsidiaries are held indirectly by GZI REIT.

8 DEFERRED ASSETS - GROUP

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

9 GOODWILL - GROUP

	HK$'000
For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005	
Opening net book amount	—
Acquisition of subsidiaries (Note 23)	**152,917**
Closing net book amount	**152,917**
At 31 December, 2005	
Cost	**152,917**
Accumulated amortisation and impairment	—
Net book amount	**152,917**

Impairment test for goodwill

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

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

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

Discount rate	5.85%

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

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

	HK$'000
Rental receivables	**320**
Less: provision for impairment of receivables	—
Rental receivables – net	**320**
Prepayments, deposits and other receivables	**4,478**
	4,798

10 RENTAL RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES - GROUP (Continued)

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

The majority of the Group's rental income is received in cash and there is no specific credit terms given to the tenants. The rental receivables are generally fully covered by the rental deposits from corresponding tenants.

	HK$'000
0 – 30 days	268
31 – 120 days	52
	320

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

There is no impairment loss for rental receivables during the period from 7 December, 2005 to 31 December, 2005.

11 CASH AND CASH EQUIVALENTS - GROUP

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

12 HEDGING RESERVE - GROUP

	HK$'000
For the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005	
Opening net book amount	—
Cash flow hedges:	
— Fair value losses	11,231
— Transfer to net profit (Note 18)	50
Closing net book amount	11,281

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

	HK$'000
Rental deposits, current portion	6,138
Receipts in advance	21,842
Provision for withholding tax payable	3,060
Provision for business tax and flood prevention fee	564
Accruals for operating expenses	6,956
Accruals and other payables	10,580
	38,560

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

Non-current rental deposits of the Group were HK$63,695,000 as at 31 December, 2005.

14 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP

	HK$'000
Interest rate and currency swaps – cash flow hedges	11,231

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

Gains and losses in equity on the swaps as of 31 December, 2005 will be released to the income statement at various dates between three months to three years from the balance sheet date.

The notional principal amounts of the outstanding interest rate and currency swap contracts at 31 December, 2005 were US$165,000,000.

At 31 December, 2005, the fixed interest rate for the bank borrowings varied from 3.18% to 3.28% and the floating rates were LIBOR plus 1.35%. The contract reference exchange rate for the bank borrowings is Renminbi 8.07847 per one US dollar and the spot rate was the exchange rate announced by the State Administration of Foreign Exchange in China.

Gains and losses recognised in the hedging reserve in equity (Note 12) on interest rate and currency swap contracts as of 31 December, 2005 will be continuously released to the income statement until the repayment of the secured bank borrowings (Note 15).

15 BANK BORROWINGS, SECURED - GROUP

	HK$'000
Non-current	
Bank borrowings	**1,255,216**

On 7 December, 2005 (date of establishment of GZI REIT), the subsidiaries of GZI REIT and the lending banks (the "Lending Banks") entered into a Facility Agreement in connection with a loan facility of US$165,000,000 (equivalent to approximately HK$1,280,000,000) (the "Loan") with a maturity period of three years for the financing of the acquisition of the share capital of Partat, Moon King, Full Estates and Keen Ocean from subsidiaries of GZI. The Loan was fully drawn down by the Group on 21 December, 2005. The subsidiaries of GZI REIT also entered into an interest rate and US$/RMB currency non-deliverable swap facility with the Lending Banks on 21 December, 2005. Pursuant to this swap arrangement, the interest rate under the above loan facility is fixed at 3.18% to 3.28% per annum for the entire three year tenure of the loan under the facility and the exchange rate will be fixed at Renminbi 8.07847 per one US dollar for repayment of interest and principal of the borrowings.

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

— investment properties of HK$4,053,800,000 (Note 6)

— assignment of rental income and all other proceeds arising from each of the investment properties and of all tenancy agreements relating to each of the investment properties

— equity interests of Partat, Moon King, Full Estates and Keen Ocean, subsidiaries of the GZI REIT

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

	HK$'000
Between 2 and 5 years	**1,255,216**

The effective interest rate of the bank borrowings at the balance sheet date was 5.89%.

The carrying amounts of the borrowings approximate their fair value.

The Group has no undrawn borrowing facilities as at 31 December, 2005.

16 EXPENSES BY NATURE

Operating expenses include the following:

	HK$'000
Property management fee(Note i)	241
Urban real estate tax	288
Business tax and flood prevention fee	348
Withholding tax(Note ii)	649
Depreciation expenses of property, plant and equipment	20
Asset management fee	573
Trustee's remuneration	40
Trustee's inception fee	120
Valuation fee	200
Legal and professional fee	1,130
Auditors' remuneration	1,300
Bank charges	—

Notes:

(i) The Group received leasing, marketing and tenancy management services from two leasing agents, namely, Guangzhou Yicheng Property Management Ltd. and White Horse Property Management Co. Ltd (Note 24).

(ii) Withholding tax on the rental income and interest income in China is calculated based on the rental income (net of business tax paid) and interest income at a rate of 10 per cent.

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.

18 FINANCE COSTS

	HK$'000
Interest expense:	
— bank borrowings wholly repayable within five years (Note 15)	2,555
Net foreign exchange transaction gains	(985)
Fair value losses on financial instruments:	
— Interest rate and currency swaps: cash flow hedge, transfer from reserve (Note 12)	(50)
	1,520

19 INCOME TAX EXPENSES

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

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

There is no material unprovided deferred taxation as at 31 December, 2005.

20 RESULT FOR THE PERIOD

The consolidated result attributable to Unitholders of GZI REIT is dealt with in the financial statements of GZI REIT to the extent of loss of approximately HK$463,348,000.

21 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 period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005 is HK4 cents. The calculation of earnings per Unit based upon profit after tax before transactions with Unitholders is based on profit after tax before transactions with Unitholders of HK$40,543,000 and on 1,000,000,000 Units in issue during the period.

Diluted earnings per Unit is not presented as there is no dilutive instruments throughout the period from 7 December, 2005 to 31 December, 2005.

22 NOTES TO THE CASH FLOW STATEMENT

Net cash inflow generated from operations

	HK$'000
Profit before taxation and transactions with Unitholders	**40,543**
Depreciation expenses	**20**
Interest income	**(41,209)**
Finance costs	**1,520**
Increase in deferred assets	**(480)**
Decrease in rental receivables	**2,201**
Increase in prepayments, deposits and other receivables	**(1,483)**
Increase in rental deposits	**3,121**
Increase in receipts in advance	**10,369**
Increase in accruals and other payables	**7,207**
Net increase in amounts with related companies	**47,175**
Net cash inflow generated from operations	**68,984**

23 BUSINESS COMBINATION

On 7 December, 2005 (date of establishment of GZI REIT), HoldCo acquired 100% of the share capital of Partat, Moon King, Full Estates and Keen Ocean (collectively referred to as the "SPVs") from subsidiaries of GZI.

According to the Reorganisation Deed dated 7 December, 2005, any change in the net asset value of the SPVs from 7 December, 2005 (date of acquisition of the SPVs) to 20 December, 2005 shall be for the account of GCCD. Accordingly, the Group consolidated the results of the SPVs from 21 December, 2005 to 31 December, 2005 in these consolidated financial statements.

The acquired business contributed rental income of HK$6,835,000 and net profit of HK$3,517,000 to the Group for the period from 21 December, 2005 (the Listing Date) to 31 December, 2005.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
— Cash paid	**2,933,623**
— Fair value of Units issued (Note i)	**1,282,275**
— Current account with GCCD, a related company	**23,940**
Total purchase consideration	**4,239,838**
Fair value of net assets acquired – shown as below	**(4,086,921)**
Goodwill (Note 9) (Note ii)	**152,917**

Notes:

(i) The fair value of the Units issued was based on the published Unit price on 21 December, 2005. The Manager considers that the fair value of the Units issued on the date of completion of the acquisition approximate the fair value of the Units issued on 21 December, 2005.

(ii) The goodwill is attributable to the prospects of the properties in real estate market in Guangzhou.

23 BUSINESS COMBINATION (Continued)

The fair value and the acquiree's carrying amount of assets and liabilities arising from the acquisition are as follows:

Fair value and acquiree's carrying amount

	HK$'000
Property, plant and equipment (Note 5)	3,415
Investment properties (Note 6) (Note)	4,053,800
Deferred assets (Note 8)	5,157
Rental receivables (Note 10)	2,521
Prepayments, deposits and other receivables (Note 10)	2,995
Cash and cash equivalents (Note 11)	101,324
Rental deposits (Note 13)	(66,712)
Receipts in advance (Note 13)	(11,473)
Accruals and other payables (Note 13)	(3,373)
Due to related companies (Note 24)	(733)
Net assets acquired	4,086,921
Purchase consideration settled in cash	2,933,623
Cash and cash equivalents in subsidiary acquired	(101,324)
Cash outflow on acquisition	(2,832,299)

Note:

The investment properties were revalued at 31 December, 2005 by Colliers International (Hong Kong) Limited, independent professional qualified valuers. The fair value of the investment properties approximates the acquiree's carrying amount.

24 SIGNIFICANT RELATED-PARTY TRANSACTIONS AND BALANCES

As at 31 December, 2005, the Group was significantly influenced by GZI (incorporated in Hong Kong), which owns approximately 40% of GZI REIT's Units. The remaining 60% of the Units are widely held.

The table set forth below summarized the names of significant parties and nature of relationship with GZI REIT as at 31 December, 2005:

Significant related party	Relationship with GZI REIT
Guangzhou Investment Company Limited ("GZI")	A major Unitholder
Guangzhou Construction & Development Holdings (China) Limited ("GCD Holding")	A subsidiary of GZI
Guangzhou City Construction & Development Ltd. ("GCCD")	A subsidiary of GZI
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV")	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd. ("Yicheng")	A subsidiary of GZI
White Horse Property Management Co. Ltd	A subsidiary of GZI
Guangzhou City Construction & Development Xingye Property Agent Ltd.	A subsidiary of GZI
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu")	The ultimate holding company of GZI
GZI REIT Asset Management Limited (the "Manager")	A subsidiary of GZI
Asset Manager – RPT	

The following transactions and balances were carried out with related parties:

(a) Transactions with related parties

	HK$'000
Management fee paid to Yicheng	**(143)**
Management fee paid to White Horse Property Management Co. Ltd	**(98)**
Rental income received from Guangzhou City Construction & Development Xingye Property Agent Ltd.	**52**
Rental income received from GZI	**33**
Rental income received from Yue Xiu	**1**
Rental income received from Yicheng	**—**

Note:

All related party transactions were carried out in accordance with the terms of the relevant agreements governing the transactions.

Details of the transactions with the Manager have been disclosed in Note 25.

24 SIGNIFICANT RELATED-PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances with related parties

	HK$'000
Balance with GZI	
Amount due to GZI	(1,606)
Balance with GCD Holding	
Amount due to GCD Holding	(78,941)
Balance with GCCD	
Amount due to GCCD	(871)
Balance with White Horse JV	
Amount due from White Horse JV	9,810
Balance with Yicheng	
Amount due to Yicheng	(142)
Balance with White Horse Property Management Co. Ltd.	
Amount due from White Horse Property Management Co. Ltd.	(98)

Note:

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

(c) Key management compensation

There was no key management compensation for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005.

25 CONNECTED-PARTY TRANSACTIONS

The table set forth below summarized the names of the connected parties, as defined in the REIT Code, and nature of relationship with GZI REIT as at 31 December, 2005:

Connected party	**Relationship with GZI REIT**
Guangzhou Investment Company Limited ("GZI") (Note)	A major Unitholder
Guangzhou Construction & Development Holdings (China) Limited ("GCD Holding") (Note)	A subsidiary of GZI
Guangzhou City Construction & Development Ltd. ("GCCD") (Note)	A subsidiary of GZI
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV") (Note)	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd. ("Yicheng") (Note)	A subsidiary of GZI
White Horse Property Management Co. Ltd (Note)	A subsidiary of GZI
Guangzhou City Construction & Development Xingye Property Agent Ltd. (Note)	A subsidiary of GZI
Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") (Note)	The ultimate holding company of GZI
GZI REIT Asset Management Limited (the "Manager") (Note)	The management company of GZI REIT and a subsidiary 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

Note:

These connected parties are also considered as the related parties of GZI REIT, transactions and balances carried out with these parties are disclosed in Note 24.

25 CONNECTED-PARTY TRANSACTIONS (Continued)

The following transactions were carried out with connected parties:

	HK$'000
Asset management fee paid to the Manager (Note ii)	(573)
Trustee fee paid to the Trustee	(160)
Valuation fee paid to the Valuer	(200)
Transactions with the HSBC Group	
Interest expense paid to the HSBC Group (Note iii)	(491)
Upfront arrangement fees on the borrowings paid to the HSBC Group	(7,567)
Rental income received from the HSBC Group	242
Interest income from the HSBC Group	76

Notes:

(i) All connected party transactions were carried out in accordance with the terms of the relevant agreements 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 15.

26 FUTURE MINIMUM RENTAL RECEIVABLE - GROUP

At 31 December, 2005, the Group had future minimum rental receivable under non-cancellable leases as follows:

	HK$'000
Not later than one year	340,390
Later than one year and not later than five years	1,057,492
Later than five years	37,963
	1,435,845

There were no future minimum rental receivables for GZI REIT.