

## 2006 Business Review and Future Prospects

The Properties comprise White Horse Building Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units, with a total gross floor area of approximately 160,651 square meters and a total gross rentable area of approximately 160,144.8 square meters. As at 31 December 2006, the overall occupancy rate of the Properties was approximately 98.8%, the aggregate annual operating income was approximately HK\$369.475 million. The Total Distributable Income amounted to approximately HK\$206.683 million with a distribution per Unit of approximately HK\$0.2067 which exceeded the Forecast by about 2.8%. All business operations performed to expectation, representing excellent momentum that manifested a sustainable upward trend and a steady pace of development.

### OCCUPANCY RATE INCREASED STEADILY

As at 31 December 2006, the gross area of the Properties under lease amounted to approximately 158,144.4 square meters, representing an increase of approximately 11,390.4 square meters compared to the gross area of the Properties under lease at the end of 2005. The overall occupancy rate improved from approximately 95.5% at the end of 2005 to approximately 98.8% at the end of 2006, an increase of about 3.3 percentage points. The Victory Plaza Units and the White Horse Building Units maintained an occupancy rate ranging from almost 100% to exactly 100%. Fortune Plaza Units recorded an occupancy rate of approximately 99.5%, up from approximately 90.2% at the end of the previous year, while the occupancy rate of City Development Plaza Units increased from approximately 92.6% at end of the previous year to approximately 96.0%. These two occupancy rates represented increases of approximately 9.3 percentage points and approximately 3.4 percentage points respectively.

The following table provides a comparison of the occupancy rates of the Properties against those of the previous year:

Name of Property	Occupancy Rate as at 31 December 2006	Occupancy Rate as at 31 December 2005	Percentage Increase/ Decrease (-)
White Horse Building Units	99.8%	100.0%	-0.2
Fortune Plaza Units	99.5%	90.2%	9.3
City Development Plaza Units	96.0%	92.6%	3.4
Victory Plaza Units	100.0%	100.0%	0.0
<b>The Properties</b>	<b>98.8%</b>	<b>95.5%</b>	<b>3.3</b>



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### OPERATING INCOME ON TARGET

The Properties earned a total rental income of approximately HK\$363.639 million during the year. Together with other operating income of approximately HK\$5.836 million, total operating income amounted to around HK\$369.475 million, exceeding the Forecast by 1.5%.

During the Reporting Year, rental income generated from White Horse Building Units represented 67.7% of total operating income earned from the Properties while each of the other three Properties shared about an average of 10.8%.

No bad debt was recorded for the Reporting Year.

The following table presents the performance of operating income generated from all of the Properties in the Reporting Year:

Name of Property	Operating Income (HK\$ million)	Operating Income from Specific Property as a Percentage of Total Operating Income
		Income
White Horse Building Units	249.999	67.7%
Fortune Plaza Units	45.521	12.3%
City Development Plaza Units	41.540	11.2%
Victory Plaza Units	32.415	8.8%
<b>The Properties</b>	<b>369.475</b>	<b>100.0%</b>



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### OPTIMIZING TENANT MIX; BEEFING UP CORE COMPETENCE

According to the data provided by the Housing Division of the Municipal Land Bureau of Guangzhou, the new supply of office buildings in Guangzhou exceeded 500,000 square meters in the Reporting Year. This exerted a certain degree of pressure on the leasing operations of office properties under GZI REIT. In order to increase the core competence of each of the Properties and to face the challenges of the market, we placed great emphasis on the adjustment and optimisation of tenant mix. We brought in quality tenants that fit the characteristics of each of the Properties to replace outgoing tenants or to fill vacant premises. We also optimized our arrangement for existing tenants and units by prioritizing supports for quality tenants that require more leasing space and by proactively retaining quality tenants.

After a year's effort, our tenant mix showed manifest improvement.

Levels 8 and 9 of White Horse Building were renovated and upgraded to become a "Marketing Zone for Quality Brands" for some 30 foreign and domestic renowned fashion brands, enhancing the building's leading position as a wholesale clothing market, not only in Guangzhou, but also the nation.

The two office properties, Fortune Units Plaza and City Development Plaza Units, maintained a relatively high renewal rate of approximately 61.57% and 80.53% respectively. While retaining its existing tenants, Fortune Plaza saw a further increase in the ratio of the gross rentable area leased by financial institutions to around 40% after an additional 2,000 square metres were leased by HSBC Group. While retaining famous domestic enterprises such as China Mobile and Cosfre (中國遠洋貨運), the successful introduction of overseas companies such as Konica and Unitika Ltd. of Japan (日本尤尼吉可株式會社) has increased the proportion of gross rentable area leased by foreign companies in City Development Plaza.

Victory Plaza Units made a successful move in promoting its differentiation strategy in the Tianhe commercial district. Owing to its pre-listing reorganization, the original tenant on the 2nd, 3rd and 4th Floors of Victory Plaza, Guangzhou Xindaxin Co., Ltd., assigned the residue of its lease to a famous office supplies wholesaler/supplier in Guangzhou ("Assignee"). After entering into possession, the Assignee decided to terminate its lease on 31 December 2006 due in part to the construction work of the two office towers on top of Victory Plaza and Ti Yu Xi Road's underground air defense shelter and the new underground railway station. Immediately after such termination, approximately 75% of the area so re-possessioned by GZI REIT were leased to GOME, an existing tenant located on the lower ground floor, and the average rental of the new lease was increased by approximately 20% as compared with the previous lease. Following its expansion of the lease, the total operating area of GOME at Victory Plaza reached 11,366.34 square metres. GOME's operating objective is to establish the "Number One Store of GOME Electric Appliance in the PRC". We expect this will create a competitive advantage by differentiating Victory Plaza from other shopping arcades in the Tianhe commercial circle.



### PROMOTING ASSET ENHANCEMENT PROJECTS; INCREASING RATE OF RETURN ON WHITE HORSE BUILDING UNITS

The Properties had an overall occupancy rate that had reached a promising level. In order to increase the rate of return on assets, we have focused on the enhancement of asset value of White Horse Building Units in 2006. We finished renovating Levels 8 and 9 of White Horse Building on schedule in April 2006, increasing its floor area for wholesaling and retailing. Newly added shops/offices were leased through one public auction, resulting in rental per square meter exceeding the Forecast by approximately 20%, accomplishing the objective of asset enhancement. In addition, in accordance with the Offering Circular, we expended a total of HK\$12.876 million to renovate and improve White Horse Building's fire-prevention system, elevators, and the customer service center in the lobby area. This significantly improved the building's equipment and facilities as well as its shopping environment. In 2007, we will proceed with renovating selected electrical cable system of the building as well as renovating the passages of some floors to further improve the building's infrastructure. By utilising the remaining budgeted amount in this manner, we aim to maintain the White Horse Building Units' competitiveness.

### ENHANCED PROPERTY MANAGEMENT TO ENSURE SAFETY OF ASSET OPERATION

In order to protect the safety of our Properties and to continually improve the management and service qualities of the Properties as well as to protect Unitholders' interests, we have implemented an effective monitoring system (including repair and maintenance systems for various equipment and facilities, emergency plans to cope with accidents and various risk management systems, etc.). We have also taken preventive measures by having scheduled fire safety inspections and fire drills to uncover hidden problems and will subsequently undertake the appropriate remedial actions as a precautionary measure. In addition, we have also set up an asset operation evaluation system by drawing support from the professional expertise of Jones Lang LaSalle, our property consultant, to carry out a full inspection and evaluation of the operating conditions of the Properties. Simultaneously, we also arranged organizational reforms and business training to raise property management standards.



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### FUTURE PROSPECTS

We believe the PRC's domestic economic environment will continue to thrive in 2007, resulting in GZI REIT having an even broader horizon for development. We will diligently conduct market studies and improve operation management standards in order to provide sustainable, stable and increased returns for our investors.

Concerning White Horse Building Units, we will take advantage of the White Horse website, VIP club, the service center in the lobby area and the performance stage at the atrium, as well as the building's other existing amenities. Promotional activities will be increased to create and promote the building's brand image and influence further. The integrated planning and deployment of external and internal advertising space will be further improved. Through reasonable segmentation, allocation and consolidation, we will set up advertising sites in suitable locations of the building and increase operating space in order to increase operating income generated from the property. At the same time, we will improve the shopping arcade Signage and directory system to promote the commercial atmosphere. We will also proactively promote better customer relationship management, extend special feature services, and enhance management and service qualities to boost the building's core competence.

Regarding the two office buildings, Fortune Plaza Units and City Development Plaza Units, we will fully leverage on their unique features as properties offering convenient commuting being situate next to underground railway stations, full amenities and excellent property management. We will study their specific positioning to further optimize their tenant mix, bring in good tenants and upgrade project scales and attractions. Customer relationship management programs will also be implemented to increase customers' satisfaction, and to retain quality tenants. Through effective measures, we will steadily increase rental levels while maintaining relatively high occupancy rates.

For Victory Plaza Units, we will take advantage of the completion and delivery of the phase 1 and 2 office towers on top, the completion of the Tiyuxilu civil air defense shelter in front of the plaza and the opening of the underground railway's third line, to improve its marketing strategy and its internal and external image. We will give strong support to the shop expansion plan and promotional activities implemented by the building's anchor tenant GOME. For vacant units, we will focus on introducing complementary business sectors such as banks, feature restaurants and convenient stores to meet the overall operating needs following the completion of the phase 2 project of the building and enhance the competitiveness and income of the retail mall.

While we maintain the operations of existing projects, we will actively implement our asset acquisition plan. Pursuant to this, we will look towards acquiring properties with recurring profit-making capabilities, including but not limited to exercising our right of first refusal to acquire existing and newly finished projects from Guangzhou Investment Company Limited with the aim of reducing GZI REIT's reliance on any individual property or major tenants. Steady earnings from property investment can then be maintained, and GZI REIT will then enhance its resilience.

