

DISTRIBUTION YIELD

The Properties performed well during the Reporting Year with distribution per Unit (“DPU”) exceeding the Forecast by 2.8% at HK\$0.2067.

Based on the closing price of the Units as at 31 December 2006 of HK\$3.070, the DPU for the Reporting Year represents a yield of 6.73%, as compared to the yield of 6.55% as disclosed in the Forecast. Using the offer price as at the Listing Date of HK\$3.075 (“Offer Price”), the DPU for the Reporting Year represents a yield of 6.72%, as compared to the yield of 6.54% as disclosed in the Forecast.

NET ASSET VALUE

The net asset value per Unit as at 31 December 2006 was approximately HK\$3.200, which represents an increase of approximately 6.1% as compared to net asset value per Unit of approximately HK\$3.016 as at 31 December 2005. The net tangible asset value per Unit as at 31 December 2006 was approximately HK\$3.041, which represents an increase of approximately 6.2% as compared to the net tangible asset per Unit of approximately HK\$2.863 as at 31 December 2005.

The increase in the net asset value per Unit was mainly attributable to the increase in the net profit after tax and before fair value gain on investment properties and transactions with the Unitholders of approximately HK\$206.683 million of GZI REIT during the Reporting Year and the increase in the valuation of the Properties as at 31 December 2006 to approximately HK\$4,240.1 million as compared to a valuation of approximately HK\$4,053.8 million as at 31 December 2005.

UNIT ACTIVITY

Market price of the Units has been relatively stable and the percentage fluctuation, above and below the Offer Price of HK\$3.075, did not exceed 21% during the Reporting Year.

The unit price of GZI REIT reached a high of HK\$3.70 and a low of HK\$2.85 during the Reporting Year. An average of approximately 5.318 million Units were transacted during the Reporting Year.

The closing price of the Units as at 31 December 2006 was HK\$3.070, representing a discount of approximately 0.16% as compared to the Offer Price of HK\$3.075. This represent a discount of approximately 4% as compared to the net assets per Unit as at 31 December 2006.

The discount referred to above has made GZI REIT an attractive investment to long term investors.

Since the Listing Date, a total of 1,000,000,000 Units were in issue.



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FINANCIAL RESULTS

The Properties continued to perform well during the Reporting Year. GZI REIT's consolidated net profit after tax before transactions with the Unitholders amounted to approximately HK\$244.436 million.

Excluding the effect of fair value gain on investment properties, GZI REIT's consolidated net profit after tax during the Reporting Year amounted to approximately HK\$206.683 million, representing an increase of approximately 2.8% as compared to the forecasted profit of HK\$201.0 million as stated in the Forecast (for the Reporting Year) as disclosed in the Offering Circular. The following is a summary of GZI REIT's financial results during the Reporting Year:

| | Actual HK\$'000 | Forecast HK\$'000 (Note 1) | % of Increase/ (Decrease) |
|--|--------------------|----------------------------------|---------------------------------|
| Gross income | 369,475 | 364,039 | 1.5% |
| Leasing agents' fee | (12,279) | (12,125) | 1.3% |
| Property related taxes | (29,232) | (28,678) | 1.9% |
| Other property expenses (Note 2) | (3,525) | (7,045) | (50.0%) |
| Total property operating expenses | (45,036) | (47,848) | (5.9%) |
| Net property income | 324,439 | 316,191 | 2.6% |
| Withholding tax | (35,387) | (34,705) | 2.0% |
| Manager's fees | (23,765) | (21,935) | 8.3% |
| Trustee's fees | (1,403) | (1,245) | 12.7% |
| Other trust expenses (Note 3) | (12,540) | (7,904) | 58.7% |
| Total non-property expenses | (73,095) | (65,789) | 11.1% |
| Net profit before finance costs, interest income and tax | 251,344 | 250,402 | 0.4% |
| Interest income | 5,696 | 2,743 | 107.7% |
| Finance costs | (50,357) | (52,138) | (3.4%) |
| Net profit before tax | 206,683 | 201,007 | 2.8% |
| Income tax expenses | — | — | N/A |
| Net profit after tax before fair value gains on investment properties | 206,683 | 201,007 | 2.8% |
| Fair value gains on investment properties | 37,753 | N/A | N/A |
| Net profit after tax before transactions with Unitholders | 244,436 | N/A | N/A |
| Transactions with Unitholders: | | | |
| Distributions paid to Unitholders | 103,300 | N/A | N/A |
| Proposed distributions to Unitholders | 103,400 | N/A | N/A |

Note 1 Based on the Forecast together with the accompanying assumptions as disclosed in the Offering Circular.

Note 2 Other property expenses included valuation fee, insurance premium, depreciation and bank charges incurred at the level of the Properties.

Note 3 Other trust expenses included audit fees, legal advisory fees, printing charges, company secretarial fees, unit registrar's fees, listing fees and miscellaneous expenses.

Gross income and net property income during the Reporting Year were approximately HK\$369.475 million and HK\$324.439 million respectively. They exceeded the projections in the Forecast by approximately 1.5% and 2.6% respectively.

Gross income included rental income of approximately HK\$363.639 million and other income of approximately HK\$5.836 million which included advertising income, administrative charges for new leases and late settlement.

Net property income amounted to approximately HK\$324.439 million, representing approximately 88% of total gross income, after deduction of relevant PRC taxes, leasing agent's fees and other property operating expenses.

Despite the increase in gross income, the total property operating expenses incurred during the Reporting Year was approximately 5.9% less than the original budgeted expenses as disclosed in the Forecast. This was mainly attributable to the Manager's effective cost control strategy on property expenses and no bad debts were incurred.

The fees of the Manager and the Trustee increased by approximately 8.3% and 12.7% respectively as a result of the increase in total assets and net property income.

Other trust expenses increased by approximately 58.7% as compared with the forecasted expenses as indicated in the Forecast. This was mainly attributable to the increase in printing charges and unit registrar's fees as a result of an underestimation of the number of investors and the increase in professional fees for services rendered by legal advisers and company secretaries.

Interest income amounted to approximately HK\$5.696 million, which represented an increase of approximately 107.7% compared with the budgeted interest income as indicated in the Forecast. This was attributable to the general increase in deposit rates in the Reporting Year and the Manager's arrangement with the relevant bank in Guangzhou for a relatively favourable interest rate for rental deposits in Renminbi.

Renminbi has been appreciating in value since the beginning of the Reporting Year and for the purposes of preparing the consolidated income statement of GZI REIT, the Manager has applied an exchange rate of RMB1.0247 to HK\$1, representing an average exchange rate during the Reporting Year.

Excluding the appreciation of Renminbi as a factor, the Manager has managed to achieve the budgeted gross income, net property income and net profit after tax as referred to in the Forecast.

Financial Review

PROPERTY VALUATION

The Manager has engaged Colliers International Hong Kong Limited (“Colliers”) as an independent property valuer to conduct a valuation of the Properties as at 31 December 2006. According to the valuation, the total value of the Properties amounted to approximately HK\$4,240.1 million, representing an increase of 4.5% as compared with the valuation as at 31 December 2005.

Approximately 3.5% of the increase in the valuation is attributable to the appreciation of Renminbi in the Reporting Year and the Manager’s adoption of the exchange rate of RMB1.0047 to HK\$1 as at the date of the consolidated balance sheet of GZI REIT. The fair value gain of the Properties amounted to approximately HK\$37.753 million.

The slight increase in valuation indicates the stable environment of the investment property market in Guangzhou.

The following table summarizes the valuation of each of the Properties as at 31 December 2006 and 31 December 2005:-

| | Valuation as at 31 December, 2006 HK\$ million | Valuation as at 31 December, 2005 HK\$ million | Percentage of each property as to the Properties as at 31 December, 2006 % |
|------------------------------|--|--|--|
| White Horse Building Units | 2,696.3 | 2,574.0 | 63.6 |
| Fortune Plaza Units | 581.9 | 554.8 | 13.7 |
| City Development Plaza Units | 410.2 | 392.0 | 9.7 |
| Victory Plaza Units | 551.7 | 533.0 | 13.0 |
| Total | 4,240.1 | 4,053.8 | 100% |

The subject valuation was prepared by Colliers based on an average of the values derived using the income capitalisation approach and the discounted cash flow analysis.

CAPITAL MANAGEMENT

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. 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.

TOTAL BORROWINGS AND TOTAL LIABILITIES TO ASSET RATIO

As at 31 December 2006, total borrowings of GZI REIT amounted to US\$165 million, representing approximately 27% of total assets of GZI REIT.

As at 31 December 2006, total liabilities of GZI REIT (excluding net assets attributable to the Unitholders) amounted to approximately HK\$1,477.733 million, representing approximately 32% of total assets of GZI REIT.

The Manager considers that the above gearing ratio is low compared with the maximum limit stipulated by REIT Code. This allows more flexibility in capital management in making future acquisitions.

CASH POSITION

Cash balance of GZI REIT as at 31 December 2006 amounted to approximately HK\$253.846 million. GZI REIT has sufficient financial resources to satisfy its financial commitments and working capital requirements.

The Manager has adopted a conservative approach in cash management to ensure flexibility to meet the operational needs and the distributions of GZI REIT.

ACCOUNTING TREATMENT:

Units recorded as Financial Liabilities; Distributions to Unitholders as Finance Costs

Pursuant to Rule 7.12 of REIT Code and the terms of the Trust Deed, GZI REIT is required to distribute to the Unitholders not less than 90% of its audited annual net income after tax, subject to certain adjustments as defined in the Trust Deed.

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, 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.

In accordance with the Hong Kong Accounting Standards ("HKAS 32"), GZI REIT has, for accounting purposes, designated its Units financial (not legal) liabilities.

On the basis of the HKAS 32, distributions to be paid to the Unitholders represent finance costs and are therefore presented as expenses in the consolidated income statement. Consequently, GZI REIT has, for accounting purposes, recognised distributions as finance costs in its audited consolidated income statement.

The above accounting treatment does not have any impact on the net assets attributable to the Unitholders.



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RENOVATION PROJECTS FOR WHITE HORSE BUILDING UNITS

Background

In accordance with the Reorganisation Deed dated 7 December 2005 signed between the Manager, the Trustee and Guangzhou Investment Company Limited (“GZI”) together with its subsidiaries (“GZI Group”), GZI Group provided an amount of HK\$26.7 million for proposed renovation works for the White Horse Building Units.

Since the Listing Date, the Manager has been applying the abovementioned funds on certain renovation works at White Horse Building Units.

Purpose of Renovation Works

After due and careful consideration of the conditions of White Horse Building Units and for purpose of maximizing returns to the Unitholders, the Manager has set out key purposes of the subject renovation works. The key purposes include the following:-

- (a) to ensure compliance with Chinese laws and regulations from time to time; and
- (b) to ensure competitiveness by improving the condition of the building and its facilities for sustainable rental income growth.

The Manager has adopted a prudent risk management policy to ensure that any implementation of renovation works will not result in significant adverse effect on the normal business operations of tenants of White Horse Building Units.

The Manager has determined that fire safety and fire prevention improvement works are the most important renovation works for ensuring the safety of White Horse Building Units; whilst the conversion of the areas on the Levels 8 and 9 for wholesale and retail purposes is another key renovation project for improving rental earnings. The remaining renovation works relate to electrical and/or structural improvements and alterations as part of the asset enhancement plan of White Horse Building Units.

Progress of Renovation Works

As at 31 December 2006, GZI REIT has incurred capital expenditure of approximately HK\$12.876 million using the abovementioned funds.

Such capital expenditure included approximately HK\$7.643 million of fixed assets related capital expenditure and approximately HK\$5.233 million of investment properties related capital expenditure.

The fixed assets related capital expenditure includes fire prevention improvement works, adding or upgrading illuminated exit signs and surveillance systems, elevator alteration works, electrical appliances alteration works and maintenance of cables and electrical wiring.

The investment properties-related capital expenditure includes alteration works for washrooms and the renovation of Levels 8 and 9 for wholesale and retail use, the latter of which amounted to contract value of approximately HK\$5.726 million, which is materially in line with the original budget as disclosed in the Forecast.



Proposed renovation works to be conducted

The Manager intends to apply the balance of the subject funds to conduct renovation alteration works for common corridors, lobby, lift lobby and electrical wires in the financial year 2007.

The Manager estimates that total fixed assets-related and investment properties-related capital expenditure incurred in the Reporting Year and to be incurred in the financial year 2007 will be materially in line with the original capital expenditure of HK\$10.3 million for fixed assets and HK\$16.4 million for investment properties related capital expenditure as disclosed in the Forecast.

The extension of time schedule for the above renovation beyond the Reporting Year is attributable to the Manager's prudent risk management approach as extensive works carried out simultaneously may affect normal business operations of the tenants and defeat the purpose of asset enhancement.

TOP FIVE REAL ESTATE AGENTS AND CONTRACTORS ENGAGED BY GZI REIT

During the Reporting Year, GZI REIT has engaged Yicheng and White Horse Property Management Company Ltd. ("White Horse Property Management Company") (collectively, "Leasing Agents") to provide designated leasing, marketing, tenancy management and property management services to the Properties.

During the Reporting Year, GZI REIT paid service fees to Yicheng and White Horse Property Management Company in the amounts of HK\$4.779 million and HK\$7.500 million respectively.

During the Reporting Year, GZI REIT has engaged various contractors to conduct renovation works for White Horse Units. The top five contractors and their respective values of services may be summarised as follows:-

| Name of contractors | Nature of services | Value of services HK\$'000 |
|---------------------|---|-------------------------------|
| 1. 廣州市泰昌消防工程有限公司 | fire service improvement works | 5,700 |
| 2. 廣州鳴鏑裝飾設計有限公司 | renovation works for Levels 8 and 9 | 2,468 |
| 3. 廣州市新五羊水電裝飾工程有限公司 | renovation works for Levels 8 and 9 | 1,715 |
| 4. 廣州市柏域網絡有限公司 | surveillance system | 778 |
| 5. 廣州市康和建築工程有限公司 | renovation works for washrooms and replacement of electrical wires | 475 |
| | | <hr/> 11,136 <hr/> |

The aggregate value of services rendered by the top five contractors engaged by GZI REIT during the Reporting Year amounted to HK\$11.136 million.

SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

GZI REIT did not enter into any real estate sales and purchases during the Reporting Year.

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REPURCHASE, SALE OR REDEMPTION OF UNITS

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

During the Reporting Year, there was no repurchase, sale or redemption of Units by GZI REIT or subsidiaries of GZI REIT.

NEW UNITS ISSUED

There were no new Units issued during the Reporting Year.

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.

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

During the Reporting Year, the Manager has complied with the provisions of the Compliance Manual for its management of GZI REIT.

REVIEW OF FINANCIAL RESULTS

The final results of GZI REIT for the Reporting Year have been reviewed by the Disclosures Committee and Audit Committee of the Manager.

ISSUANCE OF ANNUAL REPORT

The annual report of GZI REIT for the Reporting Year will be dispatched to the Unitholders on or before 30 April 2007.

ANNUAL GENERAL MEETING

The Manager proposed that the annual general meeting of GZI REIT for the Reporting Year held on 15 May 2007. Notice of the annual general meeting will in due course be published and issued to the Unitholders in accordance with the Trust Deed.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from 8 May to 15 May 2007, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all Unit certificates with completed transfer forms must be lodged with GZI REIT’s unit registrar, Tricor Investor Services Limited, of 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 7 May 2007.