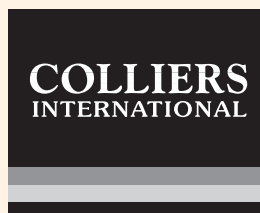


# Property Valuation Report



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12 April, 2007

GZI REIT Asset Management Limited (“Manager”)  
24th Floor, Yue Xiu Building  
160 - 174 Lockhart Road  
Wanchai, Hong Kong

HSBC Institutional Trust Services (Asia) Limited (“Trustee”)  
1 Queen’s Road Central  
Central, Hong Kong

Dear Sirs,

***Re: Valuations of various units of the properties (the “Subject Properties”) held by GZI Real Estate Investment Trust (“GZI REIT”) located in White Horse Building, Fortune Plaza, City Development Plaza and Victory Plaza, Guangzhou, Guangdong Province, The People’s Republic of China (the “PRC”)***

With reference to the instruction of the Manager on behalf of GZI REIT, we have prepared a report setting out our opinion of the value of the Subject Properties for annual accounting purposes.

We confirm that our valuation report is prepared on a fair and unbiased basis and we have carried out external and internal inspections, made relevant enquiries and obtained such further information as we consider necessary to allow us to provide you with our opinion of values of the Subject Properties as at 31 December, 2006 (the “Date of Valuation”).

The summary of market values of the Subject Properties is as follows:

|                           | Market Value as at<br>31 December 2006<br><i>RMB</i> | Market Value as at<br>31 December 2006<br><i>HK\$</i> |
|---------------------------|--|---|
| 1. White Horse Building   | 2,709,000,000  | 2,696,327,000   |
| 2. Fortune Plaza          | 584,600,000  | 581,865,000   |
| 3. City Development Plaza | 412,150,000  | 410,222,000   |
| 4. Victory Plaza          | 554,250,000  | 551,657,000   |
| <b>Total:</b>             | <b>4,260,000,000</b>                                 | <b>4,240,071,000</b>                                  |

This report is for the use of the above addressee and for the purposes indicated and no liability to any third party can be accepted for the whole or any part of the contents of the document. Neither the whole nor any part of this valuation report nor any reference thereto may be included in any other published documents, circular or statement, nor published in any way whatsoever without prior written approval of Colliers International (Hong Kong) Limited as to the form and context in which it may appear.

We hereby confirm that:

- We have no present or prospective interest in the Subject Properties and are not a related corporation of nor have a relationship with the Manager, the Trustee or any other party or parties whom GZI REIT is contracting with;
- We are authorised to practice as valuer and have the necessary expertise and experience in valuing similar types of properties;
- The valuations have been prepared on fair and unbiased basis; and
- The valuer is acting as an Independent Valuer as defined in the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

We hereby certify that the valuer undertaking these valuations is authorised to practice as valuer.

The valuation report is enclosed herewith.

Yours faithfully,

For and on behalf of

**Colliers International (Hong Kong) Limited**

**David Faulkner**

*BSc (Hons) FRICS FHKIS RPS (GP) MAE*

Regional Director

Valuation and Advisory

Note: David Faulkner is a Chartered Surveyor who has 18 years experience in the valuation of properties in the PRC and 22 years of property valuation experience in Hong Kong and the Asia Pacific region.

# Property Valuation Report

## 1. EXECUTIVE SUMMARY

### 1.1 Qualification of the Valuers

The valuations have been prepared by David Faulkner who is a Fellow of the Royal Institution of Chartered Surveyors, a Fellow of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong Special Administrative Region (“Hong Kong”).

He is suitably qualified to carry out the valuation and has over 26 years experience in the valuation of properties of this magnitude and nature, and over 18 years experience in the PRC.

We have no pecuniary interest that could reasonably be regarded as being capable of affecting our ability to give a fair and an unbiased opinion of the values or that could conflict with a proper valuation of the Subject Properties.

### 1.2 Information Sources

All investigations have been conducted independently and without influence from any third parties in any way. The information provided in this report has been obtained from the Manager, relevant bureaux, the Guangzhou Municipal People’s Government and other public sources.

### 1.3 Instructions

We accepted instructions to conduct valuations of the Subject Properties as at the Date of Valuation from the Manager on behalf of GZI REIT for the annual accounting purposes.

Our valuations have been carried out in accordance with Chapter 6 of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission (“SFC”) in August 2003 and amended in June 2005 and the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS. We have also made reference to the International Valuation Standards (7th Edition) published by the International Valuation Standards Committee in 2005.

Inspections of the Subject Properties were carried out in February 2007. We confirm that we have made relevant enquiries and obtained such information as we consider necessary to conduct the valuations.

## 2. BASIS OF VALUATION

### Market Value

The valuations have been carried out in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS.

Our valuations are made on the basis of Market Value which we would define as intended to mean “the estimated amount for which a property should exchange on the dates of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

We have valued the Subject Properties in their existing state based on the assumption that the Subject Properties can be freely transferred, mortgaged and let in the market and all proper title certificates have been obtained and land premiums have been fully settled.

## 3. VALUATION RATIONALE

In our valuations, we have valued the Subject Properties for which the areas are based on the proper title documents. In arriving at our opinion of values, we have considered prevailing market conditions, especially those related to the office, wholesale and retail property market sectors. We have also looked at lease reversionary potential such as future rent renewal rate, lease cycle duration and lease expiry profile. The valuation method adopted to arrive at our opinion of values is the Income Capitalisation Approach including Discounted Cash Flow Analysis.

The Income Capitalisation Approach reflects the specific characteristics of the Subject Properties such as lease expiry profile, existing tenant covenants and level of passing and reversionary rents. We therefore consider that this method is particularly relevant for REIT based purchasers.

The Discounted Cash Flow Analysis reflects additional property specific characteristics of the Subject Properties such as leases duration and potential rental income growth, renewed rates, vacancy rates and all outgoings.

In valuing the Subject Properties, we have used an average of the values derived using the Income Capitalisation Approach and the Discounted Cash Flow Analysis.

### 3.1 Income Capitalisation Approach

Income Capitalisation Approach estimates the values of the Subject Properties on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. In calculating the net rental income, no deduction has been made from the net passing rental income which is exclusive of property management fee.

In this valuation method, the total rental income is divided into a current passing rental income over the existing lease term (the term income) and a potential future reversionary rental income over the residual land use term (the reversionary income). The term value involves the capitalisation of the current passing rental income over the existing lease term. The reversionary value is taken to be current market rental income upon the expiry of the lease over the residual land use rights term and is capitalised on a fully leased basis. It is then discounted back to the Date of Valuation.

In this approach, we have considered the term yield and reversionary yield. The term yield is used for capitalisation of the current passing rental income as at the date of valuation whilst the reversionary yield is used to convert reversionary rental income.

### 3.2 Discounted Cash Flow Analysis

This is defined in the International Valuation Standards (7th Edition) as a financial modeling technique based on explicit assumptions regarding the prospective cash flow to properties. This analysis involves the projection of a series of periodic cash flows to an operating property. To this projected cash flow series, an appropriate discount rate is applied to establish an indication of the present value of the income stream associated with the properties. In the operating real properties, periodic cash flow is typically estimated as gross income less vacancy and operating expenses and other outgoings. The series of periodic net operating incomes, along with an estimate of the terminal value, anticipated at the end of the projection period, is then discounted at the discount rate, being a cost of capital or a rate of return used to convert a monetary sum, payable or receivable in the future, into present value.

# Property Valuation Report

## 3. VALUATION RATIONALE *(Continued)*

### 3.2 Discounted Cash Flow Analysis *(Continued)*

We have undertaken a discounted cash flow analysis on a monthly basis over a 10-year investment horizon. The net income in the Year 11 is capitalised at an appropriate yield for the remainder of the ownership term. This analysis allows an investor or owner to make an assessment of the long term return that is likely to be derived from a property with a combination of both rental income and capital growth over an assumed investment horizon. This analysis is generally used in valuing income producing properties.

In our assessment, we have assumed the Subject Properties are sold at the end of year 10 at a price based upon the forecast year 11 income, and capitalised by the terminal capitalisation rate for the remaining property lease term. The analysis is based on the assumption of a cash purchase. No allowance for interest and other funding costs have been incurred.

## 4. TITLE PARTICULARS

We have been provided with extracts from title documents relating to the Subject Properties. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. We have relied on the Manager, concerning the validity of the titles to the Subject Properties.

## 5. EXCHANGE RATE

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB). For reference purposes, we have also prepared the summary of values in Hong Kong Dollars in the cover letter. The exchange rate adopted as at the Date of Valuation was HK\$1 = RMB1.0047. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this report.

## 6. CAVEATS AND ASSUMPTION

The valuations are subject to the following caveats and assumptions.

- (a) We have inspected the exterior and interior of the Subject Properties. No tests were carried out on any of the services.
- (b) We have assumed that the Subject Properties are free from and clear of any and all charges, liens and encumbrances of an onerous nature likely to affect their values, whether existing or otherwise, unless otherwise stated. We assume no responsibility for matters legal in nature nor do we render any opinion as to the title which is assumed to be good and marketable. We are not aware of any easements or rights of way affecting the Subject Properties and our valuation assumes that none exists.
- (c) We have assumed that the Subject Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances, except only where otherwise stated. We have further assumed that, for any use of the Subject Properties upon which this report is based, any and all required licences, permits, certificates, and authorisations have been obtained, except only where otherwise stated.
- (d) Our valuations have been made on the assumption that the owners sell the Subject Properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of Subject Properties. In addition, no forced sale situation in any manner is assumed in our valuations.

## 6. CAVEATS AND ASSUMPTION *(Continued)*

- (e) No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Subject Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Subject Properties are free from encumbrances including material building defects, restrictions and outgoings of an onerous nature which could affect their values.
- (f) We have relied to a very considerable extent on the property information, including rent roll, floor plans, property particulars, etc. by the Manager.
- (g) We have not carried out detailed site measurements to verify the correctness of the site and floor areas in respect of the Subject Properties but have assumed that the site and floor areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.
- (h) We have had no reason to doubt the truth and accuracy of the information provided to us by the Manager. We have sought confirmation from the Manager that no material factors have been omitted from the information supplied. We take no responsibility for inaccurate data provided by the Manager and subsequent conclusions derived from such data and information.
- (i) The study of possible alternative development options and the related economics are not within the scope of this report.

## Part A - White Horse Building

Valuation of various units of the property (the “Property”) held by GZI REIT located in White Horse Building, Nos. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, Guangdong Province, the PRC.

### 1. SUMMARY OF THE PROPERTY

According to the information provided by the Manager, 9 Building Ownership Certificates have been issued in respect of the Property. The details of the Property are summarised as follows:

1. Current Registered Owner : Partat Investment Limited
2. Type of Land Use Right : Granted
3. Town Plan Zoning : According to the State-owned Land Use Right Grant Contract dated 28 June, 2005, the zoning of the underlying land of White Horse Building is described as “commercial/office”
4. Interest Valued : Leasehold interest of the Property
5. Property Description : The Property forms a portion of a 10-storey wholesale garment shopping centre, including eight levels above ground, a lower ground level and a basement accommodating a car park.
6. Gross Floor Area (“GFA”) of the Property :
  - Total - 50,199.3 sq.m.
  - Retail - 46,279.3 sq.m.
  - Office - 3,920.0 sq.m.
  - Lower Ground Level - 1,121.7 sq.m.
  - Level 1 - 7,667.0 sq.m.
  - Level 2 - 7,199.8 sq.m.
  - Level 3 - 7,684.9 sq.m.
  - Level 4 - 7,695.6 sq.m.
  - Level 5 - 7,466.4 sq.m.
  - Level 6 - 7,443.9 sq.m.
  - Level 7 - 2,003.5 sq.m.
  - Level 8 - 1,916.5 sq.m.

Levels 1, 2, 3, 4, 5, 6, 7, 8 correspond to 2nd, 3rd, 4th, 5th, 6th, 7th, 8th and 9th storey in White Horse Building respectively.
7. Lease Term :
  - Lower Ground Level - 50 years from 7 June, 2005
  - Level 1 - 40 years from 7 June, 2005
  - Level 2 - 40 years from 7 June, 2005
  - Level 3 - 40 years from 7 June, 2005
  - Level 4 - 7,164.2 sq.m. - 40 years from 7 June, 2005
  - Level 4 - 531.4 sq.m. - 50 years from 7 June, 2005
  - Level 5 - 50 years from 7 June, 2005
  - Level 6 - 50 years from 7 June, 2005
  - Level 7 - 50 years from 7 June, 2005
  - Level 8 - 50 years from 7 June, 2005

### 1. SUMMARY OF THE PROPERTY *(Continued)*

|     |  |   |  |
|-----|--|---|--|
| 8.  | Usage  | : | Lower Ground Level - Storage<br>Level 1 - Commercial<br>Level 2 - Commercial<br>Level 3 - Commercial<br>Level 4 - Commercial<br>Level 5 - Commercial<br>Level 6 - Commercial<br>Level 7 - Commercial<br>Level 8 - Commercial |
| 9.  | Internal Floor Area of the Property                          | : | 48,100.6 sq.m.   |
| 10. | Gross Rentable Area of the Property                          | : | 50,128.9 sq.m.   |
| 11. | Construction Completion Date                                 | : | 1990 with extension and renovation thereafter between 1995 and 1997 as well of White Horse Building as between 1998 and 2000   |
| 12. | Market Value in existing state as at the Date of Valuation   | : | RMB2,709,000,000   |
| 13. | Net Passing Income as at the Date of Valuation               | : | RMB21,315,846 per month  |
| 14. | Discount Rate adopted for Discounted Cash Flow Analysis only | : | 11.0%  |
| 15. | Term Yield   | : | 8.5%   |
| 16. | Reversionary Yield   | : | 9.5%   |
| 17. | Occupancy Rate as at the Date of Valuation                   | : | 99.8%  |
| 18. | Vacancy Allowance  | : | 1.0%   |
| 19. | Estimated Current Net Yield                                  | : | 9.4%   |
| 20. | Remarks:   | : | The property is subject to a mortgage.   |



## Part A - White Horse Building

### 2. TITLE INVESTIGATION

There is a Gongan Building erected on the south side of White Horse Building with a gross floor area of 2,700 sq.m. There was an agreement signed on 7 February, 1994 between Guangzhou City Construction & Development Group Co. Ltd. and Guangzhou City Gongan Bureau. Guangzhou City Construction & Development Group Co. Ltd. was responsible for the design, obtaining approval and construction of the Gongan Building. Guangzhou City Gongan Bureau was responsible for paying the construction cost as well as land premium of RMB950,000 to Guangzhou City Construction & Development Group. Guangzhou City Gongan Bureau could use the Gongan Building for the residual land use rights term. As advised by the Manager, we understand that the owner of the Property does not have the right to use and the title ownership of Gongan Building but this will not affect Partat Investment Limited's title to the Property.

### 3. THE PROPERTY

#### 3.1 Situation, Locality and Zoning

White Horse Building, a 10-storey commercial wholesale centre for garment, including eight levels above ground, a lower ground level and a basement car park, is located at No. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou, Guangdong Province, the PRC. It is close to the Guangzhou Railway station, bus terminal and No.2 Metro Line.

The Property is located in Yue Xiu District and its accessibility is considered to be good. The main garment wholesale area of Guangzhou is situated around Zhan Nan Road, Yue Xiu District. The area is very popular among wholesalers because of its location (close to the Guangzhou Railway Station and major expressways).

According to the State-owned Land Use Rights Grant Contract signed on 28 June, 2005, the zoning of the underlying land of White Horse Building is described as "commercial/office".

#### 3.2 Surrounding Development and Environmental Issues

The Property is located in Yue Xiu District. Developments in the area comprise mainly commercial buildings and retail shopping and wholesale centres, interspersed with some older medium-rise residential buildings.

The pedestrian flow along that section of Zhan Nan Road West is heavy as it is opposite to the bus terminal and close to the Guangzhou Railway Station.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding to the previous development erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

#### 3.3 Availability of and Access to Public Transport

General accessibility of White Horse Building is considered good as public transportation such as taxis, buses and No. 2 Metro Line are available along Zhan Nan Road. Bus stops are located at 2 minutes walking distance from White Horse Building.

#### 3.4 Car Accessibility and Road Frontage

White Horse Building is directly accessible from Zhan Nan Road. A pedestrian footbridge adjacent to the Property allows access to the Guangzhou Railway Station. The Guangzhou Railway Station is also connected to No. 2 Metro Line.

### 3. THE PROPERTY *(Continued)*

#### 3.5 Description of the Development

White Horse Building, a 10-storey commercial wholesale centre for garment, including eight levels above ground, a lower ground level and a basement car park, is located at No. 14, 16 and 18 Zhan Nan Road, Yue Xiu District, Guangzhou's traditional wholesale business area. According to the information provided by the Manager, the development has a gross floor area of 61,703.0 sq.m.

The floor area breakdown of White Horse Building is summarized as below:

| Level              | Usage                   | Gross Floor Area<br>(sq.m.) |
|--------------------|-------------------------|-----------------------------|
| Basement 1         | Carpark, Machinery Room | 5,690.9                     |
| Lower Ground Level | Storage                 | 6,934.5                     |
| Level 1            | Commercial              | 7,667.0                     |
| Level 2            | Commercial              | 7,199.8                     |
| Level 3            | Commercial              | 7,684.9                     |
| Level 4            | Commercial              | 7,695.6                     |
| Level 5            | Commercial              | 7,466.4                     |
| Level 6            | Commercial              | 7,443.9                     |
| Level 7            | Commercial              | 2,003.5                     |
| Level 8            | Commercial              | 1,916.5                     |
| Total:             |                         | <u>61,703.0</u>             |

The site of the wholesale centre comprises a regular and level plot with its main frontage on Zhan Nan Road. White Horse Building was first completed in 1990 and then underwent two separate phase extensions in between 1995 and 1997 as well as between 1998 and 2000.

General accessibility of White Horse Building is considered good as public transportation such as buses and taxis are available along Zhan Nan Road which is a main roadway.

Car parking facilities are located on basement level 1.

The layout and design of White Horse Building is reasonable in comparison with other wholesale centres in the locality.

## Part A - White Horse Building

### 3. THE PROPERTY *(Continued)*

#### 3.6 Portion of Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

| Level              | Usage      | Gross Floor Area<br>(sq.m.) | Internal Floor Area<br>(sq.m.) |
|--------------------|------------|-----------------------------|--------------------------------|
| Lower Ground Level | Storage    | 1,121.7                     | 1,081.1                        |
| Level 1            | Commercial | 7,667.0                     | 7,342.6                        |
| Level 2            | Commercial | 7,199.8                     | 6,892.2                        |
| Level 3            | Commercial | 7,684.9                     | 7,359.8                        |
| Level 4            | Commercial | 7,695.6                     | 7,370.0                        |
| Level 5            | Commercial | 7,466.4                     | 7,149.2                        |
| Level 6            | Commercial | 7,443.9                     | 7,127.5                        |
| Level 7            | Commercial | 2,003.5                     | 1,931.0                        |
| Level 8            | Commercial | 1,916.5                     | 1,847.2                        |
|                    | Total:     | 50,199.3                    | 48,100.6                       |

Upon our site inspection, we noted that Levels 1 to 8 were occupied as retail shops and ancillary office. As advised by the Manager, the Lower Ground Level comprises mainly common area including staircases and storage area, which is regarded as non-lettable area.

#### 3.7 Specification, Services and Finishes of the Development

White Horse Building is constructed of reinforced concrete with part glazed and part mosaic tiling to the exterior elevations and is decorated with marble or granite wall and floor tiles at the main lobby. Main services comprise electricity, water and telecommunications.

The building is subdivided into various units on all levels and is served by 8 passenger lifts and 2 cargo lifts serving Levels 1 to 6, 2 passenger lifts and 1 cargo lift serving Levels 7 to 8, 12 escalators serving Levels 1 to 4 and 17 staircases serving Levels 1 to 8.

The standard of services and finishes within the development is considered to be reasonable, commensurating to other wholesale centres in the neighbourhood.

The building is maintained in a reasonable condition commensurate with its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, a fire alarm system, fire extinguishers etc throughout the building.

### 3. THE PROPERTY *(Continued)*

#### 3.8 Current Rental Income

As at the Date of Valuation, about 0.2% of the Property was vacant.

According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

| <b>Leased<br/>Gross Floor<br/>Area</b><br><i>(sq.m.)</i> | <b>Monthly Net<br/>Rental Income</b><br><i>(RMB)</i> | <b>Annual Net<br/>Rental Income</b><br><i>(RMB)</i> |
|--|--|---|
| 50,020.97  | 21,315,846   | 255,790,152   |

According to the renewed tenancy agreements commencing from January, 2006, we understand that the renewed rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone and air-conditioning charges and etc.

The Property comprises various tenants from various industries such as a bank, food & restaurants, garment, etc.

We are not aware of any material options or rights of pre-emption which may affect the value of the Property.

#### 3.9 Occupancy Rate

According to the information provided by the Manager, the Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of 99.8% of the Property held by GZI REIT. The Property is occupied by various tenants such as the Bank of Communication, Guangzhou Branch and various other individual tenants.

## Part A - White Horse Building

### 3. THE PROPERTY *(Continued)*

#### 3.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of the wholesales tenancies are on normal commercial term.

The details of the duration lease terms are shown below:

| <b>Lease term<br/>greater than<br/>(year)</b> | <b>Lease term less<br/>than or equal to<br/>(year)</b> | <b>By Area<br/>(%)</b> |
|---|--|------------------------|
| 0   | 2  | 2.8                    |
| 2   | 4  | 89.7                   |
| 4   | 6  | 7.5                    |
|   |  | <hr/>                  |
|   |  | 100.0                  |
|   |  | <hr/>                  |

In general, as advised by the Manager, the typical lease terms of the newly signed tenancies commencing in January, 2006 vary between 4 and 5 years and are on normal commercial terms.

According to the renewed leases, the details of the lease expiry profile are shown below:

| <b>% of tenancies due to expire in each year</b> | <b>By Area<br/>(%)</b> |
|--|------------------------|
| 2009   | 29.7                   |
| 2010 and beyond                                  | 70.3                   |
|  | <hr/>                  |
|  | 100.0                  |
|  | <hr/>                  |

#### 3.11 Summary of Material Rent Review Provisions

We understand that the Property has no material rent review provisions. According to the supplied documents and tenancy agreements, all the leases have been renewed commencing from January 2006 and the typical lease terms vary between 4 to 5 years.

The Manager is not aware of any sub-leases or tenancies in the Property.

We are not aware of any sub-leases or tenancies or any material options or rights of pre-emption which may affect the value of the Property.

### 3. THE PROPERTY *(Continued)*

#### 3.12 Historic Outgoings

As advised by the Manager, the total property management income covers the total property management expenses.

#### 3.13 Property Management

##### 3.13.1 *Tenancy Services Agreement*

A tenancy services agreement was entered into between the Manager, Partat Investment Limited (the “Property Company”) and White Horse Property Management Co. Ltd. (the “Leasing Agent”) on 7 December, 2005 for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of White Horse Building) will be paid a remuneration of 3% per annum of the gross revenue (“Service Fees”) receivable by the Property Company from the operation of the Property. The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of White Horse Building, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Property under the property management agreement.

##### 3.13.2 *Property Management Fee*

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

### 4. VALUATION

#### 4.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Property into a value through the process of capitalization. The most common method of converting net income into value is by the “term and reversion” method.

This approach estimates the value of the Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar retail/wholesale developments in the locality.

As advised by the Manager, improvement works for Levels 8 and 9 of the Property have been completed. Since 16 April 2006, these 2 levels were occupied for retail/office uses (originally used as warehouses and offices).

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available, we have analysed lettings from a variety of buildings in the locality.

In our assessment, the term yield adopted is 8.5% and reversionary yield is 9.5%. The term yield adopted is lower than the market yield because the current passing rental income of the Property is lower than the estimated current market rental income.

## Part A - White Horse Building

### 4. VALUATION *(Continued)*

#### 4.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate within our calculation is 9%. This is based on our analysis of the term yields applicable in the marketplace with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11% for the Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow prepared by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

We have estimated the rental income growth per annum during next 10 years for the Property. Rental income growth patterns for each tenancy reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, we will follow the terms of the renewed tenancies which are typically for four or five years. Upon expiry of such tenancies new leases will be granted or renewed on three years terms at the then existing market rentals.

No deduction has been made for the expected repair and maintenance costs as we understand from the Manager that the repair and maintenance costs, for maintaining the current condition of the Property, are covered by the management fees paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance and service fees.

In our assessment, we have valued the Property using the following assumptions:

| Items                        | Percent |
|------------------------------|---------|
| Terminal Capitalisation Rate | 9.0%    |
| Discount Rate                | 11.0%   |
| Growth Rate - Year 1         | 0.0%    |
| Growth Rate - Year 2         | 0.0%    |
| Growth Rate - Year 3         | 0.0%    |
| Growth Rate - Year 4         | 0.0%    |
| Growth Rate - Year 5         | 5.0%    |
| Growth Rate - Years 6 to 10  | 5.0%    |
| Vacancy loss                 | 1.0%    |
| Bad Debts                    | 0.5%    |

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

### 4. VALUATION *(Continued)*

#### 4.2 Discounted Cash Flow Analysis *(Continued)*

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

| Projected Outgoings Items  | Projected Outgoings                            |
|--|--|
| Service Fees based on the tenancy                                    | 3.0% of gross rental income services agreement |
| Cost of Large Scale Repair and Maintenance as advised by the Manager | None   |
| Sundry Expenses  | 0.5% of rental income                          |
| Insurance  | Fixed Amount                                   |
| Business Tax   | 5.0% of rental income                          |
| Flood Prevention Fee   | 0.09% of rental income                         |
| Urban Real Estate Tax  | original value of building x 70% x 1.2%        |
| Stamp Duty   | 0.1% of gross rental income                    |

### 5. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

| Valuation Method      | Value<br>(RMB) |
|-----------------------|----------------|
| Income Capitalisation | 2,724,000,000  |
| Discounted Cash Flow  | 2,694,000,000  |

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Property in its existing state as at the Date of Valuation was RENMINBI TWO THOUSAND SEVEN HUNDRED AND NINE MILLION ONLY (RMB2,709,000,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of values derived using by the Income Capitalisation Approach and Discounted Cash Flow Analysis.



## Part B - Fortune Plaza

Valuation of various units of the Property (the “Property”) held by GZI REIT located in Fortune Plaza, Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, Guangdong Province, the PRC.

### 1. SUMMARY OF THE PROPERTY

According to the information provided by the Manager, 83 Building Ownership Certificates have been issued in respect of the Property. The details of the Property are summarised as follows:

- |     |  |   |   |
|-----|--|---|---|
| 1.  | Current Registered Owner                                   | : | Moon King Limited   |
| 2.  | Type of Land Use Right                                     | : | Granted   |
| 3.  | Town Plan Zoning   | : | The zoning of the underlying land of Fortune Plaza was described as “commercial/office”.  |
| 4.  | Interest Valued  | : | Leasehold interest of the Property.   |
| 5.  | Property Description                                       | : | The Property comprises a portion of a 6-storey commercial podium and two office towers erected above it.  |
| 6.  | Gross Floor Area (“GFA”) of the Property                   | : | Total - 40,356.2 sq.m.<br>Office- 36,503.1 sq.m.<br>Retail - 3,853.1 sq.m.  |
| 7.  | Lease Term   | : | Levels 1-5, Level 37 of East Tower and Level 27 of West Tower - 40 years from 26 November, 2002<br><br>Levels 8-9, 11-14, 19, 25-28, 34-36 of East Tower and Levels 8-19, 24-26 of West Tower - 50 years from 26 November, 2002 |
| 8.  | Usage  | : | Levels 1-5, Level 37 of East Tower and Level 27 of West Tower - Commercial<br>Levels 8-9, 11-14, 19, 25-28, 34-36 of East Tower and Levels 8-19, 24-26 of West Tower - Office   |
| 9.  | Internal Floor Area of the Property                        | : | 30,752.3 sq.m.  |
| 10. | Gross Rentable Area of the Property                        | : | 40,356.2 sq.m.  |
| 11. | Construction Completion Date of Fortune Plaza              | : | 2003  |
| 12. | Market Value in existing state as at the Date of Valuation | : | RMB584,600,000  |
| 13. | Net Passing Income as at the Date of Valuation             | : | RMB4,182,353 per month  |

## 1. SUMMARY OF THE PROPERTY *(Continued)*

|     |  |   |  |
|-----|--|---|--|
| 14. | Discount Rate adopted for Discounted Cash Flow Analysis only | : | 11.5%                                  |
| 15. | Term Yield   | : | Office: 7.5%<br>Retail: 9.5%           |
| 16. | Reversionary Yield   | : | Office: 9.0%<br>Retail: 11.5%          |
| 17. | Occupancy Rate as at the Date of Valuation                   | : | 99.5%                                  |
| 18. | Vacancy Allowance  | : | Office: 5.0%<br>Retail: 1.0%           |
| 19. | Estimated Current Net Yield                                  | : | 8.6%                                   |
| 20. | Remarks:   | : | The property is subject to a mortgage. |

## 2. THE PROPERTY

### 2.1 Situation and Locality

Fortune Plaza is located at Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, Guangzhou, Guangdong Province, the PRC. It is in close proximity to the Guangzhou East Train Station and Metro Station with interchange of Nos. 1 and 3 Metro Line.

Tian He District is a rapidly developing area in Guangzhou and is the present focus of new Grade A office developments. Located on the eastern side of Guangzhou, the majority of major developments in the area are situated around and overlook the Tian He stadium. This district has emerged as the new CBD of Guangzhou within the last few years and its increasing popularity with the business community has led to rapid development of commercial buildings around the stadium area, with new developments initially located near the central square but gradually expanding outwards from it.

### 2.2 Surrounding Development and Environmental Issues

The Property is located in Tian He District. Developments in the area comprise mainly modern high-rise commercial buildings and low-rise retail shopping centres, interspersed with older medium-rise residential buildings.

The pedestrian flow along the section of where the Property is located is heavy as it is located at the busier side of the Tian He stadium.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding areas. Due to the land registration system in the PRC, we cannot trace any information regarding previous developments erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

## Part B - Fortune Plaza

### 2. THE PROPERTY *(Continued)*

#### 2.3 Availability of and Access to Public Transport

General accessibility of Fortune Plaza is considered good as public transportation such as taxis and buses are available along Ti Yu Dong Road, a major roadway in Guangzhou. Bus stops and a metro station are located adjacent to Fortune Plaza.

Fortune Plaza is located in approximately 5 minutes driving distance from the Guangzhou East Train Station.

#### 2.4 Car Accessibility and Road Frontage

Fortune Plaza is directly accessible from Ti Yu Dong Road. A pedestrian subway adjacent to the Property allows access to the Tian He Stadium.

#### 2.5 Description of the Development

Fortune Plaza, a Grade A commercial complex, is located at Nos. 114, 116 and 118 Ti Yu Dong Road, Tian He District, in Guangzhou's prime business area. According to the information provided by the Manager, the development has a gross floor area of 80,419.1 sq.m.

The floor area breakdown of Fortune Plaza is summarized as below:

| Level                             | Usage                              | Gross Floor Area<br>(sq.m.) |
|-----------------------------------|------------------------------------|-----------------------------|
| Basement                          | Carpark and Machinery Plant Room   | 8,561.6                     |
| Podium: Level 1 to 6 – Commercial | Podium: Levels 1 to 6 – Commercial | 23,993.0                    |
| Level 7                           | Level 7 - Machinery Plant Room     |                             |
| East Tower                        | Level 8-36 – Office                | 28,900.3                    |
|                                   | Level 37 – Commercial              |                             |
| West Tower                        | Level 8-26 – Office                | 18,964.2                    |
|                                   | Level 27-28 – Commercial           |                             |
|                                   | Total:                             | <u>80,419.1</u>             |

The site of the building comprises a regular and level plot with its main frontage on Ti Yu Dong Road upon which a 6-storey commercial podium with two office towers have been erected and were completed in 2003. The East Tower is above the podium from the 8th to 37th storey and the West Tower from the 8th to 28th storey.

The main entrance of Fortune Plaza is on Ti Yu Dong Road. General accessibility of Fortune Plaza is good as public transportation such as the metro system, buses and taxis are available along Ti Yu Dong Road which is a main roadway in Guangzhou.

Car parking facilities are provided by 2 basement level car parks while a platform garden, a club and other ancillary facilities are located on Level 7.

The layout and design of Fortune Plaza is reasonable in comparison with the other office buildings in the locality.

## 2. THE PROPERTY *(Continued)*

### 2.6 Portion of Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

| No.                                | Property           | Usage      | Gross<br>Floor Area<br>(sq.m.) | Internal<br>Floor Area<br>(sq.m.) |
|------------------------------------|--------------------|------------|--------------------------------|-----------------------------------|
| <b>Podium, Ti Yu Dong Road</b>     |                    |            |                                |                                   |
| 1.                                 | No. 118, Unit 109  | Commercial | 1,007.4                        | 968.9                             |
| 2.                                 | No. 118, Level 2   | Commercial | 2,845.7                        | 2,275.8                           |
| 3.                                 | No. 118, Level 3   | Commercial | 4,275.1                        | 3,593.0                           |
| 4.                                 | No. 118, Level 4   | Commercial | 4,275.1                        | 3,593.0                           |
| 5.                                 | No. 118, Level 5   | Commercial | 4,275.1                        | 3,593.0                           |
| <b>East Tower, Ti Yu Dong Road</b> |                    |            |                                |                                   |
| 6.                                 | No. 116, Unit 801  | Office     | 180.2                          | 115.0                             |
| 7.                                 | No. 116, Unit 802  | Office     | 124.7                          | 79.5                              |
| 8.                                 | No. 118, Unit 803  | Office     | 188.8                          | 120.5                             |
| 9.                                 | No. 116, Unit 805  | Office     | 191.7                          | 122.3                             |
| 10.                                | No. 116, Unit 806  | Office     | 124.8                          | 79.6                              |
| 11.                                | No. 116, Unit 808  | Office     | 188.8                          | 120.5                             |
| 12.                                | No. 116, Unit 903  | Office     | 188.8                          | 120.5                             |
| 13.                                | No. 116, Unit 805  | Office     | 191.7                          | 122.3                             |
| 14.                                | No. 116, Unit 906  | Office     | 124.8                          | 79.6                              |
| 15.                                | No. 116, Unit 908  | Office     | 188.8                          | 120.5                             |
| 16.                                | No. 116, Unit 1101 | Office     | 180.2                          | 115.0                             |
| 17.                                | No. 116, Unit 1102 | Office     | 124.7                          | 79.6                              |
| 18.                                | No. 116, Unit 1108 | Office     | 188.8                          | 120.5                             |
| 19.                                | No. 116, Unit 1201 | Office     | 179.7                          | 115.2                             |
| 20.                                | No. 116, Unit 1202 | Office     | 125.0                          | 80.2                              |
| 21.                                | No. 116, Unit 1203 | Office     | 188.7                          | 121.0                             |
| 22.                                | No. 116, Unit 1205 | Office     | 191.7                          | 122.9                             |
| 23.                                | No. 116, Unit 1206 | Office     | 125.1                          | 80.2                              |
| 24.                                | No. 116, Unit 1208 | Office     | 188.7                          | 121.0                             |
| 25.                                | No. 116, Unit 1301 | Office     | 179.7                          | 115.2                             |
| 26.                                | No. 116, Unit 1302 | Office     | 125.0                          | 80.2                              |
| 27.                                | No. 116, Unit 1303 | Office     | 188.7                          | 121.0                             |
| 28.                                | No. 116, Unit 1306 | Office     | 191.7                          | 122.9                             |
| 29.                                | No. 116, Unit 1305 | Office     | 125.1                          | 80.2                              |
| 30.                                | No. 116, Unit 1308 | Office     | 188.7                          | 121.0                             |
| 31.                                | No. 116, Unit 1401 | Office     | 179.7                          | 115.2                             |
| 32.                                | No. 116, Unit 1402 | Office     | 125.0                          | 80.2                              |
| 33.                                | No. 116, Unit 1403 | Office     | 188.7                          | 121.0                             |

## Part B - Fortune Plaza

### 2. THE PROPERTY *(Continued)*

#### 2.6 Portion of Interest Held by GZI REIT *(Continued)*

| No.                                | Property                   | Usage  | Gross<br>Floor Area<br>(sq.m.) | Internal<br>Floor Area<br>(sq.m.) |
|------------------------------------|----------------------------|--------|--------------------------------|-----------------------------------|
| 34.                                | No. 116, Unit 1405         | Office | 191.7                          | 122.9                             |
| 35.                                | No. 116, Unit 1406         | Office | 125.1                          | 80.2                              |
| 36.                                | No. 116, Unit 1408         | Office | 188.7                          | 121.0                             |
| 37.                                | No. 116, Unit 1901         | Office | 180.2                          | 115.0                             |
| 38.                                | No. 116, Unit 1902         | Office | 124.7                          | 79.5                              |
| 39.                                | No. 116, Unit 1903         | Office | 188.8                          | 120.5                             |
| 40.                                | No. 116, Unit 1905         | Office | 191.7                          | 122.3                             |
| 41.                                | No. 116, Unit 1906         | Office | 124.8                          | 79.6                              |
| 42.                                | No. 116, Unit 1908         | Office | 188.8                          | 120.5                             |
| 43.                                | No. 116, Units 2501 & 2601 | Office | 1,586.4                        | 1,240.8                           |
| 44.                                | No. 116, Unit 2705         | Office | 188.7                          | 121.8                             |
| 45.                                | No. 116, Unit 2801         | Office | 180.3                          | 115.4                             |
| 46.                                | No. 116, Unit 3401         | Office | 180.4                          | 115.0                             |
| 47.                                | No. 116, Units 3501 & 3601 |        | 1,392.2                        | 1,029.3                           |
| 48.                                | No. 116, Level 37          | Office | 302.2                          | 181.0                             |
| <b>West Tower, Ti Yu Dong Road</b> |                            |        |                                |                                   |
| 49.                                | No. 114, Level 8           | Office | 997.7                          | 779.6                             |
| 50.                                | No. 114, Level 9           | Office | 997.7                          | 779.6                             |
| 51.                                | No. 114, Level 10          | Office | 997.7                          | 779.6                             |
| 52.                                | No. 114, Unit 1101         | Office | 189.3                          | 120.5                             |
| 53.                                | No. 114, Unit 1102         | Office | 125.0                          | 79.5                              |
| 54.                                | No. 114, Unit 1103         | Office | 179.7                          | 114.4                             |
| 55.                                | No. 114, Unit 1105         | Office | 189.3                          | 120.5                             |
| 56.                                | No. 114, Unit 1106         | Office | 125.0                          | 79.6                              |
| 57.                                | No. 114, Unit 1108         | Office | 189.3                          | 120.5                             |
| 58.                                | No. 114, Unit 1201         | Office | 189.0                          | 122.0                             |
| 59.                                | No. 114, Unit 1202         | Office | 125.7                          | 81.1                              |
| 60.                                | No. 114, Unit 1203         | Office | 179.4                          | 115.8                             |
| 61.                                | No. 114, Unit 1205         | Office | 189.0                          | 122.0                             |
| 62.                                | No. 114, Unit 1206         | Office | 125.7                          | 81.1                              |
| 63.                                | No. 114, Unit 1208         | Office | 189.0                          | 122.0                             |
| 64.                                | No. 114, Unit 1301         | Office | 189.0                          | 122.0                             |
| 65.                                | No. 114, Unit 1302         | Office | 125.7                          | 81.1                              |
| 66.                                | No. 114, Unit 1303         | Office | 179.4                          | 115.8                             |
| 67.                                | No. 114, Unit 1305         | Office | 189.0                          | 122.0                             |
| 68.                                | No. 114, Unit 1306         | Office | 125.7                          | 81.1                              |
| 69.                                | No. 114, Unit 1308         | Office | 189.0                          | 122.0                             |
| 70.                                | No. 114, Unit 1401         | Office | 189.0                          | 122.0                             |

## 2. THE PROPERTY *(Continued)*

### 2.6 Portion of Interest Held by GZI REIT *(Continued)*

| No.   | Property                 | Usage  | Gross<br>Floor Area<br>(sq.m.) | Internal<br>Floor Area<br>(sq.m.) |
|-------|--------------------------|--------|--------------------------------|-----------------------------------|
| 71.   | No. 114, Unit 1402       | Office | 125.7                          | 81.1                              |
| 72.   | No. 114, Unit 1403       | Office | 179.4                          | 115.8                             |
| 73.   | No. 114, Level 15        | Office | 997.7                          | 779.6                             |
| 74.   | No. 114, Level 16        | Office | 997.7                          | 779.6                             |
| 75.   | No. 114, Level 17        | Office | 997.7                          | 779.6                             |
| 76.   | No. 114, Level 18        | Office | 997.7                          | 779.6                             |
| 77.   | No. 114, Unit 1902       | Office | 125.9                          | 81.6                              |
| 78.   | No. 114, Unit 1903       | Office | 179.3                          | 116.2                             |
| 79.   | No. 114, Unit 1905       | Office | 188.8                          | 122.4                             |
| 80.   | No. 114, Unit 1906       | Office | 125.9                          | 81.6                              |
| 81.   | No. 114, Units 2401&2501 | Office | 1,591.4                        | 1,243.6                           |
| 82.   | No. 114, Level 26        | Office | 646.8                          | 446.0                             |
| 83.   | No. 114, Level 27        | Office | 335.8                          | 180.4                             |
| Total |                          |        | 40,356.2                       | 30,752.3                          |

### 2.7 Specification, Services and Finishes of the Development

Fortune Plaza is constructed of reinforced concrete with glazed tiling to the exterior elevations and is decorated with marble or granite wall and floor tiles in the main lobby. The specification of the building includes central air-conditioning system. Main services of the building comprise electricity, water and telecommunications.

The building is subdivided into various units on all levels and is served by 10 passenger lifts and 2 cargo lifts serving all levels.

The standard of services and finishes within the development is considered to be reasonable commensurate to other office buildings in the neighbourhood.

The building is maintained in a reasonable condition commensurate with its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, a fire alarm system and fire extinguishers throughout the building.

### 2. THE PROPERTY *(Continued)*

#### 2.8 Current Rental Income

As at the Date of Valuation, about 0.5% of the Property was vacant.

According to the supplied rent roll, as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

| Leased Gross Floor Area (sq.m.) | Monthly Net Rental Income (RMB) | Annual Net Rental Income (RMB) |
|---------------------------------|---------------------------------|--------------------------------|
| 40,143.0                        | 4,182,353                       | 50,188,236                     |

According to the supplied information, we understand that rental income is exclusive of property management fees and other outgoings such as water, electricity, town gas, telephone, air-conditioning charges and etc.

The Property houses various tenants from various industries such as banking/finance, property agency, information technology, manufacturing/ engineering, transportation, shipping etc.

#### 2.9 Occupancy Rate

According to the information provided by the Manager, most of the Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of about 99.5% of the Property held by GZI REIT. Existing tenants include HSBC, and Alibaba (China) Technology Co., Ltd.

#### 2.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies are on normal commercial terms.

The details of the lease term duration are shown belows:

| Lease term greater than<br>(year) | Lease term less than or equal to<br>(year) | By Area<br>(%) |
|-----------------------------------|--|----------------|
| 0                                 | 2  | 8.2            |
| 2                                 | 4  | 73.5           |
| 4                                 | 6  | 17.2           |
| 6                                 | 8  | 1.1            |
|                                   |  | <hr/>          |
|                                   |  | 100.0          |
|                                   |  | <hr/>          |

## 2. THE PROPERTY *(Continued)*

### 2.10 Lease Cycle Duration and Expiry Profile *(Continued)*

The details of the lease expiry profile are shown below:

| % of tenancies due to expire in each year | By Area<br>(%) |
|---|----------------|
| <b>Year</b>                               |                |
| 2007                                      | 31.7           |
| 2008                                      | 47.5           |
| 2009                                      | 8.0            |
| 2010 and beyond                           | 12.8           |
|   | <hr/>          |
|   | 100.0          |
|   | <hr/> <hr/>    |

### 2.11 Summary of Material Rent Review Provisions

As advised by the Manager, there are no sub-leases or tenancies in the Property except for the lease of Level 15 of West Tower. We consider that this sub-lease does not affect the value of the Property.

We are not aware of any material options or rights of pre-emption which may affect the value of the Property. We have considered the right to renew in our valuation.

### 2.12 Historic Outgoings

As advised by the Manager, the property management income covers all property management expenses.

### 2.13 Property Management

#### 2.13.1 Tenancy Services Agreement

A tenancy services agreement was entered into between the Manager, Moon King Limited (the “Property Company”) and Guangzhou Yicheng Property Management Ltd. (the “Leasing Agent”) on 7 December, 2005 for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of Fortune Plaza) will be paid a remuneration of 4% of the gross revenue per annum (“Service Fees”) receivable by the Property Company from the operation of the Property. The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of Fortune Plaza, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Property under the property management agreement.

#### 2.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.



### 3. VALUATION

#### 3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Property into a value through the process of capitalization. The most common method of converting net income into value is by the “term and reversion” method.

This approach estimates the values of the Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar prime office and retail developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transactions available to us, we have analysed transactions from a variety of similar types of buildings in the locality.

In our assessment, the term yields adopted are 9.5% for the retail component and 7.5% for the office component. The term yields adopted are lower than the market yields because the current passing rental income of the Property is lower than the estimated current market rental income. The reversionary yields adopted are 11.5% for the retail component and 9.0% for the office component. We have applied individual yields to the retail and office components of the Property, with a higher yield for the retail component to reflect the perceived higher levels of risk associated with the retail property market in Guangzhou which is less mature and more volatile compared to the office market.

#### 3.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate for office portion within our calculation is 8.0% and the terminal capitalisation rate for retail portion is 9.5%. This is based on our analysis of the term yields applicable in the marketplace with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11.5% for the Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

### 3. VALUATION *(Continued)*

#### 3.2 Discounted Cash Flow Analysis

We have estimated the rental income growth per annum during next 10 years for the Property. Rental income growth patterns for each tenancy reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, typically new or existing two to five years leases will be granted or renewed on the basis of three years leases and the then prevailing market rentals.

No deduction has been made for the expected cost for small scale, routine repairs and maintenance as we understand from the Manager that such small scale, routine repair and maintenance costs, for maintaining the current condition of the Property, are covered by the management fee paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, cost for large scale repair and maintenance, and service fees.

In our assessment, we have valued the Property using the following assumptions:

| Property                     | Office Portion | Retail Portion |
|------------------------------|----------------|----------------|
| Terminal Capitalisation Rate | 8.0%           | 9.5%           |
| Discount Rate                | 11.5%          | 11.5%          |
| Growth Rate - Year 1         | 1.0%           | 5.0%           |
| Growth Rate - Year 2         | 1.0%           | 5.0%           |
| Growth Rate - Year 3         | 1.0%           | 5.0%           |
| Growth Rate - Year 4         | 1.0%           | 5.0%           |
| Growth Rate - Year 5         | 1.0%           | 5.0%           |
| Growth Rate - Years 6 to 10  | 3.0%           | 5.0%           |
| Vacancy loss                 | 5.0%           | 1.0%           |
| Bad Debts                    | 1.0%           | 1.0%           |

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

### 3. VALUATION *(Continued)*

#### 3.2 Discounted Cash Flow Analysis *(Continued)*

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

| Projected Outgoings Items  | Projected Outgoings  |
|--|--|
| Service Fees based on the tenancy services agreement                 | 4.0% of gross rental income  |
| Cost of Large Scale Repair and Maintenance as advised by the Manager | RMB75,300 in 2007<br>RMB256,000 in 2008<br>RMB366,400 in 2009<br>RMB85,300 in 2010<br>RMB125,500 in 2011<br>RMB145,600 in 2012<br>RMB145,600 in 2013<br>RMB376,400 in 2014<br>RMB291,000 in 2015 |
| Sundry Expenses  | 0.2% of rental income  |
| Insurance  | Fixed Amount   |
| Business Tax   | 5.0% of rental income  |
| Flood Prevention Fee   | 0.09% of rental income   |
| Urban Real Estate Tax  | original value of building x 70% x 1.2%  |
| Stamp Duty   | 0.1% of gross rental income  |

### 4. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

| Valuation Method      | Value<br>(RMB) |
|-----------------------|----------------|
| Income Capitalisation | 607,200,000    |
| Discounted Cash Flow  | 562,000,000    |

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Property in its existing state as at the Date of Valuation was RENMINBI FIVE HUNDRED EIGHTY-FOUR MILLION AND SIX HUNDRED THOUSAND ONLY (RMB584,600,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of the values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

Valuation of various units of the property (the “Property”) held by GZI REIT located in City Development Plaza, Nos. 185, 187 and 189 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong Province, the PRC.

### 1. SUMMARY OF THE PROPERTY

According to the information provided by the Manager, 165 Building Ownership Certificates have been issued in respect of the Property. The details of the Property are summarised as follows:

1. Current Registered Owner : Full Estates Investment Limited
2. Type of Land Use Right : Granted
3. Town Plan Zoning : The zoning of the underlying land of City Development Plaza was described as “commercial/residential”.
4. Interest Valued : Leasehold interest of the Property
5. Property Description : The Property forms a portion of a 28-storey Grade A commercial building.
6. Gross Floor Area (“GFA”) of the Property : Total: 42,397.4 sq.m.  
Office: 30,639.8 sq.m.  
Retail: 11,757.6 sq.m.
7. Lease Term : Levels 1-3 - 40 years from 27 January, 1997  
Levels 6-11, 16-28-50 years from 27 January, 1997
8. Usage : Levels 1-3 - Commercial  
Levels 6-11,16-28 – Office
9. Internal Floor Area of the Property : 30,752.3 sq.m.
10. Gross Rentable Area of the Property : 42,397.4 sq.m.
11. Construction Completion Date of Fortune Plaza : 1997
12. Market Value in existing state as at the Date of Valuation : RMB412,150,000
13. Net Passing Income as at the Date of Valuation : RMB3,548,599 per month
14. Discount Rate adopted for Discounted CashFlow Analysis only : 11.0%

## Part C - City Development Plaza

### 1. SUMMARY OF THE PROPERTY *(Continued)*

|     |   |   |  |
|-----|---|---|--|
| 15. | Term Yield                                    | : | Office: 9.0%<br>Retail: 11.0%          |
| 16. | Reversionary Yield                            | : | Office: 9.5%<br>Retail: 12.0%          |
| 17. | Occupancy Rate<br>as at the Date of Valuation | : | 96.0%                                  |
| 18. | Vacancy Allowance                             | : | Office: 4.0%<br>Retail: 2.0%           |
| 19. | Estimated Current Net Yield                   | : | 10.3%                                  |
| 20. | Remarks:                                      | : | The property is subject to a mortgage. |

### 2. THE PROPERTY

#### 2.1 Situation and Locality

City Development Plaza is situated on the western side of Ti Yu Xi Road in Tian He District, Guangzhou, Guangdong Province, the PRC. The Property is in close proximity to the Guangzhou East Train Station and Lin He Xi Zhan Metro Station (about 3 minutes walk from the Property). Ti Yu Xi Road forms one axis of the square surrounding the Tian He Stadium and has become one of the main CBDs in Guangzhou.

Tian He District is a rapidly developing area and is the present focus of new Grade A office developments. Located on the eastern side of Guangzhou, the majority of major developments in the area are situated around and overlook the Tian He stadium. This district has emerged as the new CBD of Guangzhou within the last few years and its increasing popularity with the business community has led to rapid development of commercial buildings around the stadium area, with new developments initially located near the central square but gradually expanding outwards from it.

#### 2.2 Surrounding Development and Environmental Issues

The Property is located in Tian He District. Developments in the area comprise mainly modern high-rise commercial buildings and low-rise retail shopping centres, interspersed with older medium-rise residential buildings.

The pedestrian traffic flow along that section of Ti Yu Xi Road is moderate as it is located in the quieter side of the Tian He stadium.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding previous developments erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

### 2. THE PROPERTY *(Continued)*

#### 2.3 Availability of and Access to Public Transport

General accessibility of City Development Plaza is considered good as public transportation such as taxis, buses and Nos. 1 and 3 Metro Line are available along Ti Yu Xi Road. Bus stops are located at 2 minutes walk from City Development Plaza.

#### 2.4 Car Accessibility and Road Frontage

City Development Plaza is directly accessible from Ti Yu Xi Road which is a major roadway.

#### 2.5 Description of the Development

City Development Plaza, a 28-storey Grade A commercial building plus a 2-storey basement carpark, is located at Nos. 185, 187 and 189 Ti Yu Xi Road, Tian He District, in Guangzhou's prime business area. The building comprises a 5-storey commercial podium and office areas from Levels 6 to 28. According to the information provided by the Manager, the development has a gross floor area of approximately 74,049.2 sq.m.

The area breakdown of City Development Plaza is summarized as below:

| Level            | Usage                   | Gross Floor Area<br>(sq.m.) |
|------------------|-------------------------|-----------------------------|
| Basement 1 and 2 | Carpark, Machinery Room | 12,500.6                    |
| Level 1-3        | Commercial              | 11,757.5                    |
| Level 4          | Restaurant              | 4,639.3                     |
| Level 5          | Club House              | 1,724.5                     |
| Level 6-28       | Office                  | 43,427.3                    |
| Total:           |                         | <u>74,049.2</u>             |

The commercial portion is situated behind the main entrance lobby serving the office levels, and is divided into separate retail units arranged around an atrium. The ground level of the atrium is used for exhibition purposes.

The site of the building comprises a regular and level plot with its main frontage on Ti Yu Xi Road on which a 5-Storey commercial portion with an office tower (rising from the 6th to 28th storey) has been built. The building was completed in 1997.

The building's facilities include an exclusive clubhouse, restaurants, a conference centre and car parking spaces.

The layout and design of the Property is square in shape.

## Part C - City Development Plaza

### 2. THE PROPERTY *(Continued)*

#### 2.6 Portion of Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

| Property                      | Usage      | Gross<br>Floor Area<br>(sq. m.) | Remarks  |
|-------------------------------|------------|---------------------------------|--|
| Portion of Level 1            | Commercial | 1,580.2                         | Including management office  |
| Portion of Level 1            | Commercial | 1,707.4                         | This portion is the atrium of Level 1 which is a not retail unit and not for permanent lease |
| The whole of Level 2          | Commercial | 3,977.0                         |  |
| The whole of Level 3          | Commercial | 4,493.0                         |  |
| Portion of Level 6            | Office     | 1,487.3                         |  |
| Portion of Level 7            | Office     | 818.1                           |  |
| Portion of Level 8            | Office     | 922.2                           |  |
| Portion of Level 9            | Office     | 795.7                           |  |
| Portion of Level 10           | Office     | 1,383.3                         |  |
| The whole of Level 11         | Office     | 1,844.3                         |  |
| The whole of Level 16         | Office     | 1,844.3                         |  |
| Portion of Level 17           | Office     | 1,717.9                         |  |
| The whole of Levels 18 and 19 | Office     | 3,688.7                         | 1,844.34 sq.m. for each level  |
| Portion of Level 20           | Office     | 1,613.8                         |  |
| Portion of Level 21           | Office     | 1,613.8                         |  |
| The whole of Levels 22 to 28  | Office     | 12,910.4                        | 1,844.34 sq.m. for each level  |
|                               | Total      | 42,397.4                        |  |

#### 2.7 Specification, Services and Finishes of the Development

City Development Plaza is constructed of reinforced concrete and is decorated with marble or granite wall and floor tiles at the main lobby and with gypsum false ceiling. The specification of the building includes central air-conditioning system. Main services comprising electricity, water and telecommunications are provided to the building.

The office portion of the building is generally decorated with carpeted floors or homogenous floor tile, wallpaper and false ceilings.

The retail podium is served by 2 passenger lifts, 10 escalators and 4 staircases. The office lifts serve all floors.

The office portion is served by 6 passenger lifts, 2 service lifts and 2 staircases.

The building is maintained in a reasonable condition commensurate with its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, a fire alarm system and fire extinguishers throughout the building.

## 2. THE PROPERTY *(Continued)*

### 2.8 Current Rental Income

As at the Date of Valuation, about 4.0% of the Property was vacant.

According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

| <b>Leased Gross<br/>Floor Area</b><br><i>(sq.m.)</i> | <b>Monthly Net<br/>Rental Income</b><br><i>(RMB)</i> | <b>Annual Net<br/>Rental Income</b><br><i>(RMB)</i> |
|--|--|---|
| 40,718.1   | 3,548,599  | 42,583,188  |

According to the supplied information, we understand that rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone, air-conditioning charges and etc.

The Property is occupied by various tenants from various industries such as finance/insurance, property, information technology, telecommunications, manufacturing/ engineering, shipping, etc.

### 2.9 Occupancy Rate

According to the information provided by the Manager, the majority portion of the Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of about 96.0% of the Property held by GZI REIT. The Property is occupied by various tenants such as Taikang Life Insurance Co. Ltd., Shenzhen Development Bank, AXA-Minmetals Assurance Co. Ltd. Guangzhou Branch and Guangdong Mobile Communication Co., Ltd.

### 2.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies are on normal local commercial terms.

The details of the lease term duration are shown belows:

| <b>Lease term greater than</b><br><i>(year)</i> | <b>Lease term less than or equal to</b><br><i>(year)</i> | <b>By Area</b><br><i>(%)</i> |
|---|--|------------------------------|
| 0   | 2  | 29.0                         |
| 2   | 4  | 36.0                         |
| 4   | 6  | 15.3                         |
| 6   | 8  | 0.5                          |
| 8   | 10   | 19.2                         |
|   |  | <hr/>                        |
|   |  | 100.0                        |
|   |  | <hr/> <hr/>                  |



## Part C - City Development Plaza

### 2. THE PROPERTY *(Continued)*

#### 2.10 Lease Cycle Duration and Expiry Profile

The details of the lease expiry profile are shown belows:

| % of tenancies due to expire in each year | By Area<br>(%) |
|---|----------------|
| 2007                                      | 42.3           |
| 2008                                      | 23.5           |
| 2009                                      | 4.2            |
| 2010 and beyond                           | 30.0           |
|   | <hr/>          |
|   | 100.0          |
|   | <hr/>          |

#### 2.11 Summary of Material Rent Review Provisions

As advised by the Manager, there are no sub-leases or tenancies in the Property except for the leases of Units 202 and 301. We consider that this sub-lease does not affect the value of the Property.

We are not aware of any material options or rights of pre-emption which may affect the value of the Property. We have considered the right to renew in our valuation.

#### 2.12 Historic Outgoings

As advised by the Manager, the property management income covers the total property management expenses.

#### 2.13 Property Management

##### 2.13.1 Tenancy Services Agreement

A tenancy services agreement was entered into between the Manager, Full Estates Investment Limited (the “Property Company”) and Guangzhou Yicheng Property Management Co., Ltd. (the “Leasing Agent”) on 7 December, 2005 for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of City Development Plaza) will be paid a remuneration of 4% per annum of the gross revenue (“Service Fees”) receivable by the Leasing Agent from the operation of the Property. The Leasing Agent agrees that, for so long as it is the property manager of City Development Plaza, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Property under the property management agreement.

##### 2.13.2 Property Management Fee

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

### 3. VALUATION

#### 3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Property into a value through the process of capitalization. The most common method of converting net income into value is by the “term and reversion” method.

This approach estimates the value of the Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar prime office and retail developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality.

In our assessment, the term yields adopted are 11.0% for the retail component and 9.0% for the office component. The term yields adopted are lower than the market yields derived below because the current passing rental income of the Property is lower than the estimated current market rental income. The reversionary yields adopted are 12.0% for the retail component and 9.5% for the office component. We have applied individual yields to the retail and office components of the Property, with a higher yield for the retail components to reflect the perceived higher levels of risk associated with the retail property market which is less mature and more volatile compared to the office market in Guangzhou.

#### 3.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate for office portion within our calculation is 8.0% and the terminal capitalisation rate for retail portion is 10.0%. This is based on our analysis of the term yields applicable in the marketplace as with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 11.0% for the Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow prepared by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

## Part C - City Development Plaza

### 3. VALUATION *(Continued)*

#### 3.2 Discounted Cash Flow Analysis *(Continued)*

We have estimated that the rental income growth per annum during next 10 years for the Property. Rental income growth patterns for each tenancies reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, typically new or existing two to five years leases will be granted or renewed on the basis of three years leases at the then prevailing market rentals.

No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that such small scale, routine repair and maintenance costs, for maintaining the current condition of the Property, are covered by the management fee paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, cost for large scale repair and maintenance, and service fees.

In our assessment, we have valued the Property using the following assumptions:

| Property                     | Office Portion | Retail Portion |
|------------------------------|----------------|----------------|
| Terminal Capitalisation Rate | 8.0%           | 10.0%          |
| Discount Rate                | 11.0%          | 11.0%          |
| Growth Rate - Year 1         | 0.0%           | 0.0%           |
| Growth Rate - Year 2         | 0.0%           | 0.0%           |
| Growth Rate - Year 3         | 0.0%           | 0.0%           |
| Growth Rate - Year 4         | 0.0%           | 0.0%           |
| Growth Rate - Year 5         | 2.0%           | 2.0%           |
| Growth Rate - Years 6 to 10  | 2.0%           | 2.0%           |
| Vacancy loss                 | 4.0%           | 2.0%           |
| Bad Debts                    | 1.0%           | 1.0%           |

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

### 3. VALUATION *(Continued)*

#### 3.2 Discounted Cash Flow Analysis *(Continued)*

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

| Projected Outgoings Items  | Projected Outgoings   |
|--|---|
| Service Fees based on the tenancy services agreement                 | 4.0% of gross rental income   |
| Cost of Large Scale Repair and Maintenance as advised by the Manager | RMB250,800 in 2007<br>RMB1,065,900 in 2008<br>RMB461,700 in 2009<br>RMB666,900 in 2010<br>RMB148,200 in 2011<br>RMB399,000 in 2012<br>RMB159,600 in 2013<br>RMB79,800 in 2014<br>RMB210,900 in 2015 |
| Sundry Expenses  | 0.2% of rental income   |
| Insurance  | Fixed Amount  |
| Business Tax   | 5.0% of rental income   |
| Flood Prevention Fee   | 0.09% of rental income  |
| Urban Real Estate Tax  | original value of building x 70% x 1.2%   |
| Stamp Duty   | 0.1% of gross rental income   |

### 4. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

| Valuation Method      | Value<br>(RMB) |
|-----------------------|----------------|
| Income Capitalisation | 431,900,000    |
| Discounted Cash Flow  | 392,400,000    |

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Property in its existing state as at the Date of Valuation was RENMINBI FOUR HUNDRED TWELVE MILLION ONE HUNDRED AND FIFTY THOUSAND ONLY (RMB412,150,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

## Part D - Victory Plaza

Valuation of various units of the property (the “Property”) held by GZI REIT located in Victory Plaza, No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong Province, the PRC.

### 1. SUMMARY OF THE PROPERTY

According to the information provided by the Manager, 9 Building Ownership Certificates have been issued in respect of the Property. The details of the Property are summarised as follows:

- |    |  |   |  |
|----|--|---|--|
| 1. | Current Registered Owner                 | : | Keen Ocean Limited   |
| 2. | Type of Land Use Right                   | : | Granted  |
| 3. | Town Plan Zoning                         | : | According to the State-owned Land Use Rights Grant Contract dated 27 January, 1997, the zoning of the underlying land of Victory Plaza was described as “commercial/tourism”.  |
| 4. | Interest Valued                          | : | Leasehold interest of the Property   |
| 5. | Property Description                     | : | The Property comprises a portion of a 6-storey retail shopping centre with 1 basement level.   |
| 6. | Gross Floor Area (“GFA”) of the Property | : | 27,698.1 sq.m.   |
| 7. | Lease Term                               | : | Basement Level 1 - 40 years from 8 March, 2004<br>Unit 101 - 40 years from 8 March, 2004<br>Unit 102 - 40 years from 8 March, 2004<br>Level 1 ( 架空層 ) - 40 years from 8 March, 2004<br>Level 2 - 40 years from 8 March, 2004<br>Level 3 - 40 years from 8 March, 2004<br>Level 4 - 40 years from 8 March, 2004<br>Level 5 - 40 years from 8 March, 2004<br>Level 6 - 40 years from 8 March, 2004 |
| 8. | Usage                                    | : | Basement Level 1 - Non-residential/Commercial<br>Unit 101 - Non-residential<br>Unit 102 - Non-residential<br>Level 1 ( 架空層 ) - Non-residential<br>Level 2 - Non-residential<br>Level 3 - Non-residential<br>Level 4 - Non-residential<br>Level 5 - Non-residential<br>Level 6 - Non-residential  |
| 9. | Internal Floor Area of the Property      | : | 22,847.9 sq.m.   |

### 1. SUMMARY OF THE PROPERTY *(Continued)*

|     |  |   |  |
|-----|--|---|--|
| 10. | Gross Rentable Area of the Property                          | : | 27,262.3 sq.m.                         |
| 11. | Construction Completion Date of Fortune Plaza                | : | 2003                                   |
| 12. | Market Value in existing state as at the Date of Valuation   | : | RMB554,250,000                         |
| 13. | Net Passing Income as at the Date of Valuation               | : | RMB2,429,482                           |
| 14. | Discount Rate adopted for Discounted Cash Flow Analysis only | : | 10.5%                                  |
| 15. | Term Yield   | : | 8.0%                                   |
| 16. | Reversionary Yield   | : | 9.0%                                   |
| 17. | Occupancy Rate as at the Date of Valuation                   | : | 100.0%                                 |
| 18. | Vacancy Allowance  | : | 1.0%                                   |
| 19. | Estimated Current Net Yield                                  | : | 5.3%                                   |
| 20. | Remarks:   | : | The property is subject to a mortgage. |

## Part D - Victory Plaza

### 2. THE PROPERTY

#### 2.1 Situation and Locality

Victory Plaza, a 6-storey commercial retail centre with 4 basement levels, is located at No. 101 Ti Yu Xi Road, Tian He District, Guangzhou, Guangdong Province, the PRC. Victory Plaza features a 6-storey glass atrium over its entrance and a paved pedestrian mall in front of the building. As at the time of inspection, there are two office towers being constructed on top of the retail centre. As advised by the Manager, the two office towers, 52 and 36 storey high, will be completed in the second half of 2007.

Victory Plaza is located at the junction of Tian He Road and Ti Yu Xi Road, and the intersection of Nos. 1 and 3 Metro Line. It is in close proximity to the Guangzhou Book Centre and Teem Plaza. Ti Yu Xi Road forms one axis of the square surrounding the Tian He Stadium and has become one of the main CBDs in Guangzhou.

#### 2.2 Surrounding Development and Environmental Issues

The Property is located in Tian He District. Developments in the area comprise mainly modern high-rise commercial buildings and low-rise retail shopping centres, interspersed with older medium-rise residential buildings.

The pedestrian traffic flow along that section of Ti Yu Xi Road is moderate as it is located in the quieter side of the Tian He stadium.

We have no knowledge of any environmental concerns or contamination of the subject site and surrounding sites. Due to the land registration system in the PRC, we cannot trace any information regarding previous developments erected upon the subject site, therefore, we cannot comment on the likelihood of contamination and its effect on value nor ascertain the past use of the site.

#### 2.3 Availability of and Access to Public Transport

General accessibility of Victory Plaza is good as public transportation such as taxis and buses are available along Ti Yu Xi Road. Bus stops are located within a 2 minutes walk from Victory Plaza.

Victory Plaza is located within an approximately 3 minutes walk from Ti Yu Xi Road Station on the No. 1 Metro Line. Nos. 1 and 3 Metro Line are planned to build a direct underground access to the basement level 1 of Victory Plaza, which will enhance the accessibility of Victory Plaza upon its completion.

#### 2.4 Car Accessibility and Road Frontage

Victory Plaza, situated at the junction of Tian He Road and Ti Yu Xi Road, is directly accessible from Ti Yu Xi Road.

## 2. THE PROPERTY *(Continued)*

### 2.5 Description of the Development

Victory Plaza, a 6-storey commercial and retail centre and 4 levels of basement, is located at No. 101 Ti Yu Xi Road, Tian He District, in Guangzhou's prime business area. According to the information provided by the Manager, the development has a total gross floor area of 52,568.6 sq.m.

The area breakdown of Victory Plaza is summarised as below:

| Level           | Usage                     | Gross<br>Floor Area<br>(sq.m.) |
|-----------------|---------------------------|--------------------------------|
| Basement 1 to 4 | Car park                  | 24,870.5                       |
| Basement 1      | Commercial                | 1,809.2                        |
| Level 1         | Commercial (includes 架空層) | 3,033.5                        |
| Level 2         | Commercial                | 3,968.9                        |
| Level 3         | Commercial                | 4,756.7                        |
| Level 4         | Commercial                | 4,756.7                        |
| Level 5         | Commercial                | 4,769.9                        |
| Level 6         | Commercial                | 4,603.2                        |
|                 | Total                     | 52,568.6                       |

Upon our site inspection, there were two office towers being constructed on top of the retail centre. As advised by the Manager, the two office towers, 52 and 36 storeys high, are scheduled to be completed by the end of 2007. The two new office towers will add an estimated floor area of 58,823.0 sq.m. and 30,772.0 sq.m. upon completion.

The site area of Victory Plaza is approximately 10,477.0 sq.m. The site of the shopping centre comprises a regular and level plot with its main frontage on Ti Yu Xi Road on which a 6-storey commercial retail centre with 4 basement levels has been erected and was completed in 2003.

The main entrance of Victory Plaza is on Ti Yu Xi Road. General accessibility of Victory Plaza is considered good as public transportation such as buses and taxis are available along Ti Yu Xi Road.

The layout and design of Victory Plaza is reasonable in comparison with the other shopping centres in the locality.



## Part D - Victory Plaza

### 2. THE PROPERTY *(Continued)*

#### 2.6 Interest Held by GZI REIT

GZI REIT holds a portion of the development and the details of the interest are listed below:

| Property           | Usage            | Gross<br>Floor Area<br>(sq.m.) | Internal<br>Floor Area<br>(sq.m.) |
|--------------------|------------------|--------------------------------|-----------------------------------|
| Part of Basement 1 | Commercial       | 1,809.2                        | 1,503.6                           |
| Level 1 (101)      | Commercial       | 473.7                          | 442.3                             |
| Level 1 (102)      | Commercial       | 1,553.5                        | 1,451.0                           |
| Level 1            | Commercial (架空層) | 1,006.3                        | 978.2                             |
| Level 2            | Commercial       | 3,968.9                        | 3,058.1                           |
| Level 3            | Commercial       | 4,756.7                        | 3,833.0                           |
| Level 4            | Commercial       | 4,756.7                        | 3,833.0                           |
| Level 5            | Commercial       | 4,769.9                        | 3,875.8                           |
| Level 6            | Commercial       | 4,603.2                        | 3,872.9                           |
|                    | Total            | <u>27,698.1</u>                | <u>22,847.9</u>                   |

#### 2.7 Specification, Services and Finishes of the Development

Victory Plaza is constructed of reinforced concrete structures. The common parts from Levels 1 to 4 are finished with granite homogenous floor and wall tiles and on Levels 5 to 6 with granite floor tiles and plastic or painted and wallpapered walls. Main services comprising electricity, water and telecommunications are provided to the building.

The building is subdivided into various units on all levels and is served by 4 passenger lifts, 20 escalators serving from the basement to Level 6.

The standard of services and finishes within the development is considered to be reasonable, commensurately to other shopping centres in the neighbourhood.

The building is maintained in a reasonable condition commensurate with its age.

The fire safety measures include the installation of automatic sprinkler heads, smoke detectors, a fire alarm system and fire extinguishers throughout the building.

## 2. THE PROPERTY *(Continued)*

### 2.8 Current Rental Income

As at the Date of Valuation, the Property was fully leased. According to the supplied rent roll as at the Date of Valuation, the existing net monthly rental income and equivalent annual net rental income was as follows:

| <b>Leased Gross<br/>Floor Area</b><br><i>(sq.m.)</i> | <b>Monthly Net<br/>Rental Income</b><br><i>(RMB)</i> | <b>Annual Net<br/>Rental Income</b><br><i>(RMB)</i> |
|--|--|---|
| 23,390.0   | 2,429,482  | 29,153,784  |

According to the supplied information, we understand that rental income is exclusive of property management fee and other outgoings such as water, electricity, town gas, telephone, air-conditioning charges and etc.

The Property is occupied by various tenants from various industries such as food & beverages, electricity, banking/financing, retail, etc.

### 2.9 Occupancy Rate

According to the information provided by the manager, the Property was leased to various tenants as at the Date of Valuation. This equates to an occupancy rate of 100% of the Property held by GZI REIT. The Property is occupied by various tenants such as Guangzhou Qiao Mei Fa Zhan Company Limited, Guangzhou Laoxiang Diet Co. Ltd., Yum! Restaurants (Guangdong) Co., Ltd. and China Merchants Bank Guangzhou Branch.

## Part D - Victory Plaza

### 2. THE PROPERTY *(Continued)*

#### 2.10 Lease Cycle Duration and Expiry Profile

In general, the typical lease terms of all tenancies are on normal local commercial terms.

The details of the lease term duration are shown belows:

| <b>Lease term<br/>greater than<br/>(year)</b> | <b>Lease term less<br/>than or equal to<br/>(year)</b> | <b>By Area<br/>(%)</b> |
|---|--|------------------------|
| 0   | 2  | 0.2                    |
| 2   | 4  | 47.6                   |
| 4   | 6  | 6.9                    |
| 6   | 8  | 18.9                   |
| 8   | 11   | 26.4                   |
|   |  | <hr/>                  |
|   |  | 100.0                  |
|   |  | <hr/> <hr/>            |

The details of the lease expiry profile are shown belows:

| <b>% of tenancies due to<br/>expire in each year</b> | <b>By Area<br/>(%)</b> |
|--|------------------------|
| 2007   | 0.8                    |
| 2008   | 4.6                    |
| 2009   | 2.3                    |
| 2010 and beyond                                      | 92.3                   |
|  | <hr/>                  |
|  | 100.0                  |
|  | <hr/> <hr/>            |

#### 2.11 Summary of Material Rent Review Provisions

As advised by the Manager, there are no sub-leases or tenancies in the Property.

We are not aware of any material options or rights of pre-emption which may affect the value of the Property. We have considered the right to renew in our valuation.

## 2. THE PROPERTY *(Continued)*

### 2.12 Historic Outgoings

As advised by the Manager, the total property management income covers the total property management expenses.

We are of the opinion that the current property management fee is in line with the market level of similar developments in the locality.

### 2.13 Property Management

#### 2.13.1 *Tenancy Services Agreement*

A tenancy services agreement was entered into between the Manager, Keen Ocean Limited (the “Property Company”) and Guangzhou Yicheng Property Management Co., Ltd. (the “Leasing Agent”) on 7 December, 2005, for an initial term of three years. Under this agreement the Leasing Agent (who is also the property manager of Victory Plaza) will be paid a remuneration of 4% per annum of the gross revenue (“Service Fees”) receivable by the Property Company from the operation of the Property. The Leasing Agent, as the property manager of the building is entitled to retain 10% of any contributions made by the tenants towards the operating expenses of the building. The Leasing Agent agrees that, for so long as it is the property manager of Victory Plaza, the Service Fees paid to the Leasing Agent shall also be in satisfaction of the property management fees which it is entitled to receive from the Property Company for any vacant units of the Property under the property management agreement.

#### 2.13.2 *Property Management Fee*

As advised by the Manager, the monthly management fees are payable by the tenants to the Leasing Agent.

## 3. VALUATION

### 3.1 Income Capitalisation Approach

This approach converts the actual and anticipated net income from the Property into a value through the process of capitalization. The most common method of converting net income into value is by the “term and reversion” method.

This approach estimates the value of the Property on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income and potential future income from existing vacancies.

In preparing our valuations, we have had regard to asking or transacted rental income comparables within similar prime retail developments in the locality.

For the purposes of market comparables compositions, we have identified a number of comparables from our own database (which is based on the most recent data available to us). Due to the limited number of actual transaction available to us, we have analysed lettings from a variety of similar type of buildings in the locality.

In our assessment, the term yield and reversionary yield adopted are 8.0% and 9.0% respectively. The term yield adopted is lower than the market yield derived below because the current passing rental income of the Property is lower than the estimated current market rental income.

### 3. VALUATION *(Continued)*

#### 3.2 Discounted Cash Flow Analysis

For the Property, the terminal capitalisation rate adopted within our calculation is 9.0%. This is based on our analysis of the term yields applicable in the marketplace with a discount to allow for the fact that we are capitalising a net rental income in year 11. The discount reflects the difference between the rental income stream before deductions and the net rental income together with an allowance for the security that a net rental income provides over the rental income before deduction.

In our calculation, we have adopted the discount rate of 10.5% for the Property. The discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it reflects the opportunity cost of capital. In arriving at the discount rate, we have studied the current market situation for an investment return over a 10-year period from a commercial property. We have also investigated the return required by active property investors in the market as purchasers of shopping centres and office buildings.

In arriving at the periodic cash flow provided by us, we have considered the annual rental income growth rate to assess the projected rental income, which is applied to the cash flow upon the expiry of the leases.

We have estimated that the rental income growth per annum during next 10 years for the Property. Rental income growth patterns for each tenancy reflect the rent review provisions of each lease, including staged rent increase where applicable. We have assumed that upon expiry of the tenancies, typically new or existing three to ten leases will be granted or renewed on the basis of three years leases and the then existing market rentals.

No deduction has been made for the expected cost for small scale, routine repair and maintenance as we understand from the Manager that such small scale, routine repair and maintenance costs, for maintaining the current condition of the Property, are covered by the management fee paid by tenants.

We have also deducted amounts for business tax, stamp duty, urban real estate tax, flood prevention fee, insurance, cost for large scale repair and maintenance, and service fees.

In our assessment, we have valued the Property using the following assumptions:

| Items                        | Percent |
|------------------------------|---------|
| Terminal Capitalisation Rate | 9.0%    |
| Discount Rate                | 11.0%   |
| Growth Rate - Year 1         | 0.0%    |
| Growth Rate - Year 2         | 6.0%    |
| Growth Rate - Year 3         | 6.0%    |
| Growth Rate - Year 4         | 6.0%    |
| Growth Rate - Year 5         | 8.0%    |
| Growth Rate - Years 6 to 10  | 8.0%    |
| Vacancy loss                 | 1.0%    |
| Bad Debts                    | 1.0%    |

Vacancy loss is based on our view on the supply and demand and our local market knowledge of the relevant property market in Guangzhou.

### 3. VALUATION *(Continued)*

#### 3.2 Discounted Cash Flow Analysis *(Continued)*

In our Discounted Cash Flow Analysis, based on the information provided by the Manager, we have projected the following outgoings to be expended for the next 10 years on the building at the following amount:

| Projected Outgoings Items  | Projected Outgoings  |
|--|--|
| Service Fees based on the tenancy services agreement                 | 4.0% of gross rental income  |
| Cost of Large Scale Repair and Maintenance as advised by the Manager | RMB1,040,000 in 2007<br>RMB427,600 in 2008<br>RMB410,000 in 2009<br>RMB380,000 in 2010<br>RMB230,000 in 2011<br>RMB820,000 in 2012<br>RMB181,000 in 2013<br>RMB598,000 in 2014<br>RMB1,221,900 in 2015 |
| Sundry Expenses  | 0.2% of rental income  |
| Insurance  | Fixed Amount   |
| Business Tax   | 5.0% of rental income  |
| Flood Prevention Fee   | 0.09% of rental income   |
| Urban Real Estate Tax  | original value of building x 70% x 1.2%  |
| Stamp Duty   | 0.1% of gross rental income  |

### 4. VALUATION SUMMARY

We have summarised the calculation results of each approach in the table below:

| Valuation Method      | Value<br>(RMB) |
|-----------------------|----------------|
| Income Capitalisation | 521,100,000    |
| Discounted Cash Flow  | 587,400,000    |

Based on our valuation method of Income Capitalisation Approach including Discounted Cash Flow Analysis, we are of the opinion that the Market Value of the Property in its existing state as at the Date of Valuation was RENMINBI FIVE HUNDRED FIFTY-FOUR MILLION TWO HUNDRED AND FIFTY THOUSAND ONLY (RMB554,250,000) assuming it is available for sale in the market with the benefit of existing tenants and its property title is free from all material encumbrances or defects. The Market Value of the Property is an average of values derived using the Income Capitalisation Approach and Discounted Cash Flow Analysis.

# Overview of Office and Retail Market in Guangzhou City

## OFFICE

Major offices originally targeted for completion in 2006 such as Teem Tower, China International Center and Poly International Tower, have been postponed until next year. Over 700,000 sq.m. of Grade A office spaces is scheduled for completion by next year, including some premium Grade A offices like R&F Centre, IFP and Teem Tower which will offer a wide variety of options for those international tenants looking for high quality office.

Due to the lack of new supply in the market, the demand for Grade A office still remains strong which has led to the downward adjustment of the overall vacancy rate to 9.21% in 4Q 2006. The tight supply situation has resulted in the increase of rentals and prices in 2006.

With a large number of high quality Grade A offices coming to the market, this will attract more international tenants in 2007 such as foreign capital banks, agency and consultation organizations. Thus, rentals and capital values are expected to rise approximately 5% to 10%.

## RETAIL

Major prime shopping areas are situated in the Yue Xiu District, Tian He District and Li Wan District. These three areas accounted for majority portion of the total stock in the city. The majority of retail developments in Guangzhou City are shopping centres. In the past 10 years, the growth in the development of shopping malls and hypermarkets has increased rapidly.

Strong retail sales in 2006 have attracted many retailers to set up and expand in Guangzhou City. The overall vacancy rate for the major retail locations in Guangzhou City averaged 15% as at the end of 2006. We expect that the demand for retail space in the city will strengthen further in the short to medium term due to the short of supply in the prime locations. Going forward, the rentals and capitals are expected to rise gradually.