



## **GZI Real Estate Investment Trust**

*(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance  
(Chapter 571 of the Laws of Hong Kong))*

**(Stock Code: 405)**

**Managed by**

**GZI REIT ASSET MANAGEMENT LIMITED**

### **RESULTS ANNOUNCEMENT FOR 2005**

GZI Real Estate Investment Trust (“GZI REIT”) is a Hong Kong real estate investment trust constituted by a trust deed entered into on 7 December, 2005 (“the Trust Deed”) between HSBC Institutional Trust Services (Asia) Limited as the trustee (“the Trustee”) and GZI REIT Asset Management Limited as the manager (“the Manager”). GZI REIT was listed on The Stock Exchange of Hong Kong Limited on 21 December, 2005 (“the Listing Date”).

GZI REIT’s property portfolio (“the Properties”) consists of four commercial properties located in Guangzhou and GZI REIT is the first real estate investment trust which invests in Guangzhou, Guangdong Province, the People’s Republic of China (“the PRC”).

#### **TOTAL DISTRIBUTABLE INCOME FOR THE PERIOD**

The Total Distributable Income of GZI REIT to unitholders for the period from the Listing Date to 31 December, 2005 (“the Relevant Period”) amounted to approximately HK\$40,543,000.

Note: Total Distributable Income as defined in the Trust Deed is the amount calculated by the Manager as representing the consolidated audited profit after tax of GZI REIT as adjusted for accounting purposes to eliminate the effects of accounting adjustments.

#### **Distribution**

In accordance with the Trust Deed, GZI REIT is required to distribute no less than 90% of Total Distributable Income to unitholders of GZI REIT (“the Unitholders”). The Manager’s policy is to distribute to unitholders 100% of GZI REIT’s Total Distributable Income (as defined in the Trust Deed) for each of the 2006, 2007 and 2008 financial years and thereafter at least 90% of Total Distributable Income (as defined in the Trust Deed) in each financial year.

The Manager intends to distribute to Unitholders 100% of GZI REIT’s Total Distributable Income (as defined in the Trust Deed) for the financial period ended 31 December, 2005, which amounted to approximately HK\$40,543,000.

Pursuant to the Trust Deed, distribution in respect of the financial period ended 31 December, 2005 shall be paid at the same time as the payment of the first distribution made during the financial year ending on 31 December, 2006, or in any case, no later than 30 November, 2006.

Accordingly, distribution for the Relevant Period will be distributed together with the distribution for the first half year of 2006 and will be paid to persons who are Unitholders as at the record date for the interim distribution for the period from 1 January, 2006 to 30 June, 2006. As a result, Unitholders who are not recorded as holders of Units on such record date will not be entitled to receive any distribution for the Relevant Period.

The first distribution are expected to be made in November 2006 and all distributions will be made in Hong Kong dollars.

### **Chairman and CEO Report**

On 21 December, 2005, GZI REIT was listed on The Stock Exchange of Hong Kong Limited (code 0405), and became the world's first Real Estate Investment Trust investing in PRC properties.

Through investing into investment properties (including offices, retail and other commercial properties) located in the Pearl River Delta region, GZI REIT strives to provide all Unitholders long-term sustainable growth and returns, and provide investors an opportunity to participate in the PRC property market.

GZI REIT generated net IPO proceeds of approximately HK\$1.79 billion, and was widely welcomed by local and international investors, recording an over-subscription of approximately 496 times for retail investors and approximately 74 times for institutional investors, respectively. The Units of GZI REIT ("Units") were priced at IPO at HK\$3.075, and as at December 31, 2005, the closing price of the Units was HK\$3.45, which implied a yield of approximately 1.18%.

Benefiting from the overall development of the Pearl River Delta region, including a continued influx of multinational corporations and service industry, the GDP of Guangzhou Municipality grew approximately 13%, thereby creating a momentum for growth in potential demand for commercial properties. Growth in per capita income and consumption has also sped up the development of the Guangzhou consumer market, which also benefits the large shopping malls. In 2005, the Guangzhou property market witnessed a growth in rental and property prices of around 10% and 10.98%, respectively; these indicators reflect the future prospect of Guangzhou property market.

Currently, GZI REIT's 4 properties are all located in Guangzhou Municipality. They are: White Horse Building, Fortune Plaza, City Development Plaza and Victory Plaza, with a total gross floor area of approximately 160,000 square metres. The 4 properties are all positioned in prime locations with good access to transport and major roads, and are renowned for the quality of property management and have received various awards in relation to such achievements. Good service quality together with excellent facilities, have resulted in these properties being well-received by tenants. Various famous multinational corporations have secured tenancies in these properties, and occupancy rates have consistently grown. As at 31 December, 2005, the overall occupancy rate of these properties was around 95.5%.

In order to maintain financial stability for the investment portfolio, GZI REIT has adopted a prudent approach to financial risk management, with debt leverage controlled at around 33%, with a comfortable margin compared to the allowed maximum gearing of 45% under the Code on Real Estate Investment Trusts (the “REIT Code”).

Looking into the future, we are committed to the strategy of active value enhancement, with an eye on selective acquisition of properties with sustainable growth in return; which will include making good use of the deed of right of first refusal (“Right of First Refusal”) obtained from Guangzhou Investment Company Limited (stock code 0123) to further enhance the opportunities to acquire good quality property.

GZI REIT will at the same time continue to improve its own operation and corporate governance quality, to actively maintain a prudent approach to financial management, and to improve returns from its property portfolio through asset enhancement. With the support provided by our property consultant Jones Lang LaSalle, the Manager will strive to improve internal control and risk management discipline, and will provide better corporate governance and investment returns to GZI REIT.

We take this opportunity to express our greatest gratitude to all directors, senior management and staff, for their dedication to the success of GZI REIT; and we also take this opportunity to thank all the Unitholders, Tenants and business partners for their continued support of GZI REIT.

## **Business Review**

Since listing, operations of GZI REIT have been in stable development, with rent collection proceeding smoothly, without any default situation. As at 31 December, 2005, GZI REIT’s total rental income was approximately HK\$6.84 million, of which approximately HK\$3.27 million was from White Horse Building, approximately HK\$1.23 million was from Fortune Plaza, approximately HK\$1.17 million was from City Construction and Development Building and HK\$1.17 million was from Victory Plaza.

## **Active Asset Acquisition Strategy**

At the moment, the Pearl River Delta region of Guangdong Province, including the Guangzhou Municipality, is in robust development, and provides an ideal current operating environment as well as great expansion opportunity for GZI REIT.

In 2005, Guangzhou GDP has reached the mark of RMB510 billion, representing an increase of approximately 13% as compared to 2004. Guangzhou’s urban resident disposal income per capita was approximately RMB18,287, an increase of approximately 8.3% year on year. The tertiary industry (comprising mainly service industries) had contributed approximately 52.59% to the overall GDP growth of Guangzhou.

## **Property Market Review and Discussion**

We will actively seek expansion opportunities, and acquire properties with sustainable profit growth potential, aiming at reducing the reliance on a single project or major tenants, and to help maintain a stable property income.

## **Pro-active Leasing Policy**

In terms of asset management, we adopt a strategy of active and aggressive management in order to achieve maximum asset value enhancement and improve return for all Unitholders. We will make reference to the market value and the properties' endowment to raise rent and to control expenses. Together with the ongoing improvement of the tenant mix, we will continue to strive to raise occupancy rates.

As at 31 December, 2005, GZI REIT has been operating smoothly, with the overall occupancy of the 4 properties improved to over 90%, of which White Horse Building is maintained at 100%, Fortune Plaza at approximately 90.2%, City Development Plaza at approximately 92.6%, and Victory Plaza at 100%. At the same time of rent increase and occupancy rate enhancement, we will continue to improving the lease expiry structure, in order to increase the resilience of GZI REIT's operations.

Looking into the future, we will emphasize acquisition, active asset management and refine capital structure, and rely on these strategies to enhance asset return for GZI REIT, realizing the objective of stable and growing return to Unitholders. In terms of specific operating strategy, we will complete the conversion of the 7th and 8th Floor of White Horse Building and will embark on the conversion project of the podium of White Horse Building from a food mall into additional units for garment outlets, resulting in an increase the rentable space of the GZI REIT; we will also strive to increase the occupancy rate of Fortune Plaza; maintaining the occupancy rate of City Development while improving the tenancy mix; improve the business mix of Victory Plaza and enhance its competitiveness.

Furthermore, through staff training we will strive to improve service quality, and will aim at achieving an international professional management standard, actively implementing retention programmes for quality tenants, refining management details in order to attract more tenants and increase asset value, thereby achieving better returns to all Unitholders.

## **FINANCIAL REVIEW**

### **Intended Distribution Per Unit**

The Properties performed well during the Relevant Period with intended distribution per unit (“DPU”) exceeding GZI REIT’s profit forecast (“the Profit Forecast”) for the Relevant Period as disclosed in the offering circular of GZI REIT dated 12 December, 2005 (“the Offering Circular”) by 25 times at HK\$0.0405. Based on the closing price of the units as at 31 December, 2005 of HK\$3.45, the DPU calculated based on only the 11 days during the Relevant Period represented a yield of 1.18%. Using the initial public offer (“the IPO”) price of HK\$3.075, the DPU calculated based on only the 11 days during the Relevant Period represented a yield of 1.32%. The substantial increase in DPU is mainly due to the non-recurring interest income in the sum of HK\$41.128 million generated from funds received for share applications during the IPO of GZI REIT which has attracted enormous interest from investors in Hong Kong and overseas, with subscription rates of over 496 times for its Hong Kong Public Offer.

### **Unit Activity**

Since the listing of GZI REIT on 21 December, 2005, investors have enjoyed an unit price appreciation from the IPO price of HK\$3.075 to year-end closing of HK\$3.45, representing an increase of 12%.

GZI REIT’s unit price reached a high of HK\$3.775 and a low of HK\$3.45 during the Relevant Period. The volume transacted during the Relevant Period was 572.983 million units, equivalent to an average of 95.497 million units daily.

### **Asset Value**

The net asset value per unit as at 31 December, 2005 was HK\$3.016, which represents an increase of 5.7% as compared to net asset value of HK\$2.853 as disclosed in the unaudited proforma balance sheets as at the Listing Date of GZI REIT based on the maximum offer price of HK\$3.075 as disclosed in Appendix III of the Offering Circular. The total net tangible asset value per unit as at 31 December, 2005 was HK\$2.863, which represents an increase of 3.2% as compared to the net tangible asset of HK\$2.775 as disclosed in the unaudited proforma balance sheet of GZI REIT based on maximum offer price of HK\$3.075 as disclosed in Appendix III of the Offering Circular.

The major reasons for the increase referred to above included the increase in the valuation of the Properties as at 31 December, 2005 by 1.2% to HK\$4,053.8 million as compared to a valuation of HK\$4,005.0 million as at 30 September, 2005 and the increase in net profit after tax and before transactions with unitholders of HK\$40,543,000. The subject valuation was prepared based on an average of the values derived using the income capitalisation approach and the discounted cash flow analysis. The slight increase in valuation indicates the stable investment environment and the quality asset performance of the Properties.

## Financial Results

The Properties performed well during the Relevant Period. Rental income and net property income increased by an average of 2% as compared to the Profit Forecast for the Relevant Period as disclosed in the Offering Circular. The following is a summary of GZI REIT's financial results during the Relevant Period:

	<b>Actual</b> <i>HK\$'000</i>	<b>Profit</b> <b>Forecast</b> <i>HK\$'000</i> <i>(Note 1)</i>	<b>% of</b> <b>change</b>
<b>Gross income</b>	<u>6,835</u>	<u>6,704</u>	
Leasing agents' fee	(241)	(235)	2.6%
Property related taxes	(643)	(640)	0.5%
Other property expenses <i>(Note 2)</i>	<u>(269)</u>	<u>(269)</u>	—
<b>Total property operating expenses</b>	<u>(1,153)</u>	<u>(1,144)</u>	0.8%
<b>Net property income</b>	<u>5,682</u>	<u>5,560</u>	
Withholding tax	(649)	(637)	1.9%
Manager's fees	(574)	(538)	6.7%
Trustee's fees	(160)	(37)	332.4%
Other trust expenses <i>(Note 3)</i>	<u>(3,445)</u>	<u>(1,212)</u>	184.2%
Total non-property expenses	<u>(4,828)</u>	<u>(2,424)</u>	99.2%
<b>Net profit before finance costs, interest income and tax</b>	854	<b>3,136</b>	
Interest income	41,209	0	
Finance costs	<u>(1,520)</u>	<u>(1,542)</u>	
<b>Net profit after tax before transactions with unitholders</b>	40,543	<b>1,594</b>	
Transactions with unitholders			
Distributions to unitholders	(40,543)	—	
Increase in fair value of units	<u>(463,348)</u>	<u>—</u>	
	<u>(463,348)</u>	<u>—</u>	

- Note 1 Based on the Profit Forecast together with the accompanying assumptions as disclosed in the Offering Circular.
- Note 2 Other property expenses include valuation fee, insurance premium and depreciation
- Note 3 Other trust expenses include audit fees, printing charges, listing fees, legal advisory and company secretarial fees.

As compared to the forecasts dividend in the GZI REIT's Offering Circular dated 12 December, 2005, the actual distributable profit for the period from Listing Date to 31 December, 2005 exceeded the forecasted distributable profit while the net results of the GZI REIT did not meet the forecasted net results since it was not practicable to estimate the change in the fair value of the REIT unit which shall be recorded through profit and loss account at the time of preparation of the profit forecast.

As indicated in the above schedule, gross revenue and net property income exceeded the projections in the Profit Forecast by 2%, whilst all fees and expenses except for other trust expenses are in line with the Profit Forecast. The increase in other trust expenses of more than HK\$2.233 million is mainly attributable to the increase in professional fees for services rendered by legal advisers, auditors and company secretaries and the increase in printing charges as a result of an under-estimation of number of investors.

As a result, net profit before finance costs, interest income and tax amounted to HK\$854,000, representing a decrease of HK\$2.282 million compared with the Profit Forecast of HK\$3.136 million. Whilst finance costs incurred was in line with the Profit Forecast, the non-recurring interest income as referred to above resulted in a substantial increase in the net profit after tax before transactions with unitholders in the sum of HK\$40.543 million as compared to HK\$1,594 million recorded in the Profit Forecast.

### **Portfolio Overview**

GZI REIT's portfolio of four properties includes Whitehorse Units, Fortune Plaza Units, City Development Units and Victory Plaza Units all of which performed well in the last quarter of 2005, showing improvement in occupancy rates as compared to the historical performance in the first three quarters of the year 2005 as disclosed in the Offering Circular.

The following table shows the comparison of occupancy rates as at 31 December, 2005 and the historical rates as at 30 September, 2005 as disclosed in the Offering Circular.

	Occupancy rate			Rental income generated during Relevant Period	
	Actual as at 31 December, 2005	Historical as at 30 September, 2005	% of increase	HK\$'000	% of total rental
Whitehorse Units	100.0%	100.0%	0	3,269	47.8%
Fortune Plaza Units	90.2%	76.9%	13.3%	1,229	18.0%
City Development Units	92.6%	91.0%	1.6%	1,165	17.0%
Victory Plaza Units	<u>100.0%</u>	<u>100.0%</u>	0	<u>1,172</u>	<u>17.2%</u>
Total property portfolio	<u>95.5%</u>	<u>91.7%</u>	3.8%	<u>6,835</u>	<u>100.0%</u>

The occupancy rate of the overall portfolio increased from 91.7% as at 30 September, 2005 to 95.5% as at 31 December, 2005, representing an increase of 3.8%. Whilst Whitehouse Units and Victory Plaza Units maintained a full occupancy rate of 100%, occupancy rates of Fortune Plaza Units increased from 76.9% to 90.2% and City Development Units increased from 91.0% to 92.6%.

During the Relevant Period, Whitehouse Units contributed 47.8% of the total rental income of the Properties whilst the remaining three Properties provided an average contribution of 17.4%.

There were no bad debts recorded during the Relevant Period.

## PERFORMANCE TABLE

The following table summaries the performance of GZI REIT as compared to the unaudited proforma balance sheet as at the establishment date of GZI REIT as disclosed in Appendix III of the Offering Circular.



	<b>Actual as at 31 December, 2005 HK\$</b>	<b>Unaudited Proforma Balance Sheet as at the establishment date of GZI REIT HK\$</b>
Total net asset value	3,015,914,000	2,852,801,000
Number of units in issue	1,000,000,000 units	1,000,000,000 units
Net asset value per unit	3.016	2.853
Highest premium of traded price to net asset value	0.759	N/A
Highest discount of traded price to net asset value	N/A	N/A
Net yield per unit (based on yield for the Relevant Period over market price at 31 December, 2005)	1.18%	N/A
Net yield per unit (based on yield for the Relevant Period over offer price)	1.32%	N/A

## **TRANSACTIONS WITH UNITHOLDERS**

### **Distributions to unitholders as finance costs**

Pursuant to Rule 7.12 of the Code on Real Estate Investments Trusts (“the REIT Code”) issued by the Securities and Futures Commission of Hong Kong (“the SFC”) on June 2005 and the terms of the Trust Deed, GZI REIT is required to distribute to unitholders not less than 90% of its audited annual net income after tax subject to certain adjustments as defined in the Trust Deed. In accordance with the Hong Kong Accounting Standard 32, such distributions to be paid to unitholders represent finance costs and are therefore presented as an expense in the income statement. Consequently, GZI REIT has recognised distributions as finance costs in the income statement.

### **Units recorded as financial liabilities carried at fair value through profit and loss**

On the basis of the circumstances stated above, GZI REIT has designated its units as financial liabilities carried at fair value through profit and loss and has recorded such amounts at fair value as at 31 December, 2005. The number of units in issue and the market price per unit as at 31 December, 2005 are 1,000 million units and HK\$3.45 respectively resulting in market capitalization of HK\$3,450 million. The increase in value in the sum of HK\$463.348 million arising from fluctuation of market capitalization during the Relevant Period has therefore presented as a deduction from profit after tax before transactions with unitholders.

## **CAPITAL STRUCTURE**

The capital management policy of GZI REIT is to achieve optimal debt profile. GZI REIT, through its special purpose vehicles, entered into a facility agreement with a syndicate of banks for an US\$165 million three-year term loan facility. Total borrowings (which exclude debt-related expenses) as a percentage of value of gross assets is 29% whilst total liabilities excluding debt-related expenses as a percentage of value of gross assets is 33%. The bank borrowings are secured and the security package includes, among others, a registered mortgage over each of the Properties, assignment of rental income and all other proceeds arising from each of the Properties and of all tenancy agreements relating to each of the Properties and a legal mortgage over the shares of the BVI Companies.

## **REVIEW OF FINANCIAL RESULTS**

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

## **ISSUANCE OF ANNUAL REPORT**

The annual report to GZI REIT will be published and forwarded to unitholders on or before 29 April, 2006.

## **REPURCHASE, SALE OR REDEMPTION OF UNITS**

Pursuant to the Trust Deed, the Manager shall not repurchase any units on behalf of GZI REIT until permitted to do so by the relevant codes and guidelines issued by SFC from time to time.

During the Relevant Period, there was no re-purchase, sale or redemption of units of GZI REIT by GZI REIT or subsidiaries of GZI REIT.

## **SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES**

GZI REIT did not enter into any real estate sales and purchases during the Relevant Period.

## **INTEREST COVERAGE**

Interest coverage was 27 times for the Relevant Period measuring based on the operating profit after adjustment for non-cash items.

## **EMPLOYEES**

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

## **CORPORATE GOVERNANCE**

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

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

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

## FINANCIAL STATEMENTS

The directors of the Manager are pleased to announce the audited consolidated results of GZI REIT and its subsidiaries for the period from 7 December, 2005 to 31 December, 2005 as follows:-

### CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER, 2005

	<i>Note</i>	<i>HK\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment		3,395
Investments properties		4,053,800
Deferred assets		5,637
Goodwill		<u>152,917</u>
		<u>4,215,749</u>
<b>Current assets</b>		
Rental receivables	5	320
Prepayments, deposits and other receivables	5	4,478
Cash and cash equivalents		235,917
Due from related companies		<u>9,810</u>
		<u>250,525</u>
		<u>4,466,274</u>
<b>Current liabilities</b>		
Rental deposits, current portion		6,138
Receipts in advance		21,842
Accruals and other payables		10,580
Due to related companies		<u>81,658</u>
		<u>120,218</u>
<b>Non-current liabilities, other than amounts attributable to unitholders</b>		
Rental deposits, non-current portion		63,695
Bank borrowings, secured		1,255,216
Derivative financial instruments	6	<u>11,231</u>
		<u>1,330,142</u>
<b>Net assets attributable to unitholders</b>		<u><u>3,015,914</u></u>

**CONSOLIDATED INCOME STATEMENT  
FOR THE PERIOD FROM 7 DECEMBER, 2005  
(DATE OF ESTABLISHMENT OF GZI REIT)  
TO 31 DECEMBER, 2005**

	<i>Note</i>	<i>HK\$'000</i>
Turnover — rental income	7	6,835
Operating expenses	8	<u>(5,981)</u>
Operating profit		854
Interest income from bank deposits		41,209
Finance costs	9	<u>(1,520)</u>
Profit before tax and transactions with unitholders		40,543
Income tax expenses	10	<u>—</u>
Profit after tax before transactions with unitholders		<u>40,543</u>
Transactions with unitholders:		
— Distributions to unitholders (i)	3	(40,543)
— Increase in fair value of units (ii)		<u>(463,348)</u>
		<u>(463,348)</u>

*Notes:*

- (i) The Trust Deed requires GZI REIT to distribute to unitholders an amount not less than 90% of total distributable income of each financial period/year subject to adjustments allowed under the Trust Deed. Total finance costs arising from the transactions with unitholders, including amounts to be paid to unitholders, therefore amounted to HK\$40,543,000.
- (ii) GZI REIT has designated its units as financial liabilities at fair value through profit or loss. The increase in value arising from the fluctuation of market capitalisation of GZI REIT's units in the period has therefore been presented as a deduction from profit after tax before transactions with unitholders.
- (iii) Earnings per unit information is not presented on the face of the income statement as the units that are publicly traded are considered to be financial liabilities in accordance with HKAS 32. Earnings per unit based upon profit after tax before transactions with unitholders, is presented in note 11.

**DISTRIBUTION STATEMENT  
FOR THE PERIOD FROM 7 DECEMBER, 2005  
(DATE OF ESTABLISHMENT OF GZI REIT)  
TO 31 DECEMBER, 2005**

		<i>HK\$'000</i>
Profit after tax before transactions with unitholders		40,543
Adjustments for the total distributable income		<u>—</u>
Total distributable income		<u><u>40,543</u></u>
Distribution per unit (HK\$) (Note)	3	<u><u>N/A</u></u>

*Note:* Pursuant to the terms of Trust Deed, GZI REIT's first distribution after 21 December, 2005 (being GZI REIT's listing date) will be for the period from the 21 December, 2005 to 30 June, 2006. Accordingly, distribution for the period from 7 December, 2005 (date of establishment of GZI REIT) to 31 December, 2005 will be distributed together with the distribution for the first half of 2006 and will be paid to persons who are unitholders of GZI REIT as at the record date for the interim distribution for the period from 1 January, 2006 to 30 June, 2006.

**PERFORMANCE TABLE  
AS AT 31 DECEMBER, 2005**

Total net assets value	HK\$3,015,914,000
Net asset value per unit	HK\$3.016
The highest premium of the traded price to net asset value (i)	HK\$0.759
Net yield per unit (ii)	1.18%
Number of units in issue	1,000,000,000 units

*Note:*

- (i) The highest premium is calculated based on the highest traded price of HK\$3.775 on The Stock Exchange of Hong Kong Limited during the period from 21 December, 2005 (being GZI REIT's listing date) to 31 December, 2005. The lowest traded price during the period was HK\$3.25 which is higher than the net asset value as at 31 December, 2005 (subscription price of the units was HK\$3.075 as at 21 December, 2005), accordingly, no discount of the traded price to net asset value is presented.
- (ii) Net yield per unit is calculated based on profit after tax before transactions with unitholders per unit for the period from 7 December, 2005 to 31 December, 2005 over the traded price of HK\$3.45 as at 31 December, 2005.

**STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE PERIOD FROM 7 DECEMBER, 2005  
(DATE OF ESTABLISHMENT OF GZI REIT)  
TO 31 DECEMBER, 2005**

	<i>HK\$'000</i>
Result for the period	(463,348)
Other items of income or expense recognised outside Income Statement	
— Fair value losses on cash flow hedges	<u>(11,281)</u>
Total recognised income and expense for the period	<u>(474,629)</u>

**Net assets attributable to unitholders**

	<b>Amount attributable to unitholders (excluding hedging reserve) <i>HK\$'000</i></b>	<b>Hedging reserve <i>HK\$'000</i></b>	<b>Net assets attributable to unitholders <i>HK\$'000</i></b>
Proceeds from issuance of units (i)	1,704,377	—	1,704,377
Issuance of units for acquisition of subsidiaries (ii)	1,282,275	—	1,282,275
Fair value adjustments (iii)	—	—	—
Amount to be distributed to unitholders	40,543	—	40,543
Change in fair value of cash flow hedges	<u>—</u>	<u>(11,281)</u>	<u>(11,281)</u>
Balance at 31st December 2005	<u>3,027,195</u>	<u>(11,281)</u>	<u>3,015,914</u>

*Notes:*

- (i) The Group issued 583,000,000 units on 21st December 2005 at HK\$3.075 per unit to the public. The related issuance costs and listing expenses amounting to HK\$88,348,000 have been netted off with the proceeds.
- (ii) The Group issued 417,000,000 units on 7th December 2005 (41.7% of the then total units issued after this issue) to Guangzhou Construction & Development Co. Ltd., a subsidiary of Guangzhou Investment Company Limited, as part of the purchase consideration for 100% share capital of Partat Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited. The fair value of the shares issued at the date of completion of the acquisition amounted to HK\$1,282,275,000 (HK\$3.075 per share).
- (iii) Fair value adjustments presented as a deduction from profit after tax before transactions with unitholders have no net impact on the net assets attributable to unitholders.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1 BASIS OF PREPARATION**

GZI Real Estate Investment Trust (“GZI REIT”) and its subsidiaries (collectively referred to as the “Group”) mainly engaged in the leasing of commercial properties in Mainland China (“China”).



GZI REIT is a Hong Kong collective investment scheme constituted as a unit trust by the Trust Deed entered into between GZI REIT Asset Management Limited, as the manager of GZI REIT, and HSBC Institutional Trust Services (Asia) Limited, as the trustee of GZI REIT (the “Trustee”) on 7 December, 2005 and authorised under section 104 of the Securities and Futures Ordinance (“SFO”) subject to the applicable conditions imposed by Securities and Futures Commission (“SFC”) from time to time.

GZI REIT was listed on The Stock Exchange of Hong Kong Limited on 21 December, 2005.

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

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Group’s accounting policies.

## 2 SEGMENT REPORTING

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

## 3 DISTRIBUTIONS TO UNITHOLDERS

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

## 4 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

During the period GZI REIT applied HKFRS for financial reporting purposes, which requires the units issued to unitholders to be classified and disclosed as financial liabilities in the balance sheet.

## 5 RENTAL RECEIVABLES, PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES — GROUP

	<i>HK\$’000</i>
Rental receivables	320
Less: provision for impairment of receivables	<u>—</u>
Rental receivables — net	320
Prepayments, deposits and other receivables	<u>4,478</u>
	<u><u>4,798</u></u>

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

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

	<i>HK\$'000</i>
0 — 30 days	268
31 — 120 days	<u>52</u>
	<u>320</u>

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

There is no impairment loss for rental receivables during the period from 7 December, 2005 to 31 December, 2005. The rental receivables of HK\$52,000 which was overdue for more than 30 days from one tenant was received in full in January 2006 and accordingly no bad debts was recorded.

## **6 DERIVATIVE FINANCIAL INSTRUMENTS - GROUP**

	<i>HK\$'000</i>
Interest rate and currency swaps — cash flow hedges	<u>11,231</u>

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedge item is less than 12 months.

### **Interest rate and currency swaps**

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

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

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

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

## **7 TURNOVER**

Turnover of GZI REIT comprised rental income.

## 8 EXPENSES BY NATURE

Operating expenses include the following:

	<i>HK\$'000</i>
Property management fee (i)	241
Urban real estate tax	288
Business tax and flood prevention fee	348
Withholding tax (ii)	649
Depreciation expenses of property, plant and equipment	20
Asset management fee	573
Trustee's remuneration	160
Valuation fee	200
Legal and professional fee	1,130
Auditors' remuneration	1,300
Bank charges	<u>—</u>

*Notes:*

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

## 9 FINANCE COSTS

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

## 10 INCOME TAX EXPENSES

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

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

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

## 11 EARNINGS PER UNIT BASED UPON PROFIT AFTER TAX BEFORE TRANSACTIONS WITH UNITHOLDERS

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

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

## 12 FUTURE MINIMUM RENTAL RECEIVABLE

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

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

By order of the Board  
**Liang Ningguang**  
*Chairman*

Hong Kong, 18 April, 2006

*As at the date of this announcement, the Board of the Manager comprises:*

**Executive Directors:**                **Liang Ningguang and Liu Yongjie**

**Non-executive Director:**        **Liang Youpan**

**Independent Non-  
executive Directors:**            **Chan Chi On, Derek, Lee Kwan Hung, Eddie and Chan  
Chi Fai, Brian**