



## **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**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE, 2006**

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**

The Total Distributable Income (as defined in the Trust Deed) of GZI REIT to the unitholders of GZI REIT (“the Unitholders”) for the six-month period from 1 January, 2006 to 30 June, 2006 (“the 2006 Interim Period”) amounted to approximately HK\$103,375,000, representing distribution per unit of HK\$0.1033. The Total Distributable Income (as defined in the Trust Deed) of GZI REIT for the 11-day period from the Listing Date to 31 December, 2005 (“the Relevant Period 2005”) amounted to approximately HK\$40,543,000, representing distribution per unit of HK\$0.0405.

The Total Distributable Income (as defined in the Trust Deed) for the period from the Listing Date on 21 December, 2005 to 30 June, 2006 amounted to HK\$143,918,000, representing an aggregate distribution per unit of HK\$0.1438.

Note: Total Distributable Income as defined in the Trust Deed is the amount calculated by the Manager as representing the consolidated audited or reviewed 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 the Unitholders. The Manager’s policy is to distribute to the Unitholders 100% of GZI REIT’s Total Distributable Income (as defined in the Trust Deed) for each of the 2006, 2007 and 2008 financial year and thereafter at least 90% of Total Distributable Income (as defined in the Trust Deed) in each financial year.

To provide Unitholders with maximum returns, the Manager resolved to distribute to Unitholders 100% of GZI REIT's Total Distributable Income (as defined in the Trust Deed) for the Relevant Period 2005.

Pursuant to the terms of Trust Deed, distribution in respect of the Relevant Period 2005 would be paid at the same time as the distribution in respect of the 2006 Interim Period.

The Manager has resolved to declare an interim distribution to Unitholders for the 2006 Interim Period of HK\$0.1033 per unit and a final distribution for the Relevant Period 2005 of HK\$0.0405 per unit, amounting to a total first distribution of HK\$0.1438 per unit. This represents a 100% distribution of GZI REIT's Total Distributable Income (as defined in the Trust Deed) for the 2006 Interim Period and the Relevant Period 2005.

The first distribution amounting to approximately HK\$143,918,000, in aggregate, will be effected on 8 November, 2006 and be payable to the Unitholders whose names appear on the register of Unitholders on 7 November, 2006.

The Manager confirms that the distribution referred to above composes only of profit after tax before transactions with the Unitholders and does not include any elements in the nature of capital of GZI REIT.

The Manager has calculated the Total Distributable Income (as defined in the Trust Deed) based on GZI REIT's consolidated profit after tax before transactions with the Unitholders and considered that no adjustments were required to eliminate the effects of certain non-cash items.

## **BUSINESS REVIEW**

GZI REIT's property portfolio comprises White Horse Units, Fortune Plaza Units, City Development Plaza Units and Victory Plaza Units (each as defined in the initial public offering circular of GZI REIT dated 12 December, 2005). All business indicators performed well for the 2006 Interim Period.

### **A Steady Increase in Occupancy Rate**

Through optimizing floor plan in the 2006 Interim Period, gross rentable area increased by approximately 1,121.7 square metres. Gross rentable area increased from 159,023.1 square metres as at 31 December, 2005 to 160,144.8 square metres. As of 30 June, 2006, the gross area of leased properties reached 157,840.4 square metres. Despite the increase in gross rentable area, the overall occupancy rate of the REIT Properties further increased from 95.5% as at 31 December, 2005 to 98.6% as at 30 June, 2006, representing an increase of 3.1%. Both White Horse Units and Victory Plaza Units continue to achieve an occupancy rate of almost 100%. During the 2006 Interim Period, the occupancy rate of Fortune Plaza Units grew from 90.2% to 98.1% whilst the occupancy rate of City Development Plaza Units rose from 92.6% to 97.0%.

The following table shows the occupancy rates of the Properties as at 30 June, 2006:

<b>Name of Property</b>	<b>Occupancy Rate as at 30 June, 2006</b>	<b>Occupancy Rate as at 31 December, 2005</b>	<b>% of increase/ (decrease)</b>
White Horse Units	99.7%	100%	(0.3%)
Fortune Plaza Units	98.1%	90.2%	7.9%
City Development Units	97.0%	92.6%	4.4%
Victory Plaza Units	99.6%	100%	(0.4%)
The Properties	98.6%	95.5%	3.1%

### **Expected Target Achieved for Rental Income**

Given a steady increase in the overall occupancy rate, the Properties recorded an aggregate rental income of approximately HK\$180,435,000 and other income of approximately HK\$2,306,000, representing gross operating income of approximately HK\$182,741,000 during the 2006 Interim Period. As at 30 June, 2006, GZI REIT achieved 50.2% of the budgeted operating income for the financial year 2006 as disclosed in the section headed "Profit Forecast" ("the Profit Forecast") in the initial public offering circular of GZI REIT dated 12 December, 2005 ("the Offering Circular").

During the 2006 Interim Period, White Horse Units accounted for 66.2% of the total rental income, whilst each of the remaining three properties accounted for an average of 11.3% of the total rental income.

During the 2006 Interim Period, no bad debts were recorded.

The following table shows the rental income generated from each of the Properties during the 2006 Interim Period:

<b>Name of Property</b>	<b>Rental Income (HK\$'000)</b>	<b>% of Total Rental Income</b>
White Horse Units	119,450	66.2%
Fortune Plaza Units	21,803	12.1%
City Development Plaza Units	20,046	11.1%
Victory Plaza Units	19,136	10.6%
The Properties	180,435	100%

### **Ongoing Improvement of Tenant Mix**

In order to increase the competitiveness of the Properties, the Manager placed much emphasis on the tenant mix and the strength of our tenants by adjusting tenant mix when appropriate. The Manager adhered to the features and positioning requirements of each of the

Properties. Focusing on the expiring leases and the existing vacant units, the Manager has attracted quality tenants whose business fit in with the character of each of the Properties. On the other hand, the Manager continued to improve existing tenant mix and unit floor plan and encouraged extension of leases by quality tenants on a preferential basis so as to actively retain quality tenants. During the 2006 Interim Period, not only had our tenant mix been further improved, encouraging progress was also achieved in renewal of leases without any loss of major tenants.

### **Success in Asset Enhancement**

As stated in the Offering Circular, the Manager is determined to focus on improving the distribution return to Unitholders through asset enhancement. During the period of four months or so after the listing of GZI REIT, the Manager completed the renovation and leasing of Levels 8 and 9 of White Horse Units in April 2006 and successfully converted the area available for wholesale and retail purposes. All units area was leased out at the same time through public tender. The average rental achieved represented a premium of approximately 20% over the original estimated rental rates. Accordingly, the target of asset enhancement was achieved. The newly renovated Levels 8 and 9 were positioned as the “Marketing Region of Quality Brands of White Horse Building” and the tenants opened for business at the newly leased premises on 18 May, 2006.

### **Improving Safety Management System**

In order to ensure the safety of the Properties, the Manager has taken measures to improve the safety management system. These include improvements to the maintenance of facility and repair systems, ensuring the normal operation of the fire prevention system and conducting regular fire safety inspections and fire emergency practices. As a precautionary measure, any potential safety risks identified must be eliminated within a specified time frame. To ensure performance of the fire prevention facilities, including mechanical and electrical aspects, the Manager has made special arrangements for relevant professionals from Jones Lang LaSalle to conduct a comprehensive review and assessment of the relevant facilities of the Properties. In addition, to ensure the safety of the Properties, the Manager conducts irregular fire safety inspections to supervise the implementation of fire safety management works.

### **Operating Efficiency and Cost Control**

With a relatively streamlined management structure and an improved operating model, the Manager managed to raise the operating efficiency while maintaining the costs. The Manager will continue to raise the operating efficiency of GZI REIT with a view to provide increasing returns on investment.

### **Future Prospects**

The Manager will continue to identify and attract suitable quality tenants to improve customer flow which would be beneficial to existing tenants. These include an improvement in tenant mix and an introduction of high quality brands, thereby enhancing the reputation

of White Horse Units and Victory Plaza Units in the market. In addition, in respect of the office section of Fortune Plaza Units and City Plaza Units, the Manager will focus on maintaining good relationships with our tenants and giving timely responses to customers' needs in preparation for future renewal of leases.

In addition to implementing its planned strategy for asset enhancement, the Manager will adopt a positive but prudent approach in its asset acquisition plans in order to achieve sustainable profitability. Future acquisitions may include, but will not be limited to, acquisition of existing or newly completed projects from Guangzhou Investment Company Limited through the exercise of the right of first refusal.

## **FINANCIAL REVIEW**

### **DISTRIBUTION PER UNIT**

Distribution to Unitholders for the 2006 Interim Period of HK\$0.1033 per unit represents a yield of approximately 3.33% per unit based on the closing price of HK\$3.10 per unit as at 30 June, 2006. This represents an annualized distribution yield of 6.67%.

Distribution to Unitholders for the Relevant Period 2005 of HK\$0.0405 per unit represents a yield of approximately 1.31% based on the closing price of HK\$3.10 per unit as at 30 June, 2006.

Accordingly, total distribution per unit in relation to the period from the Listing Date to 30 June, 2006 amounts to HK\$0.1438, representing a total yield of 4.64% based on the closing price of HK\$3.10 per unit as at 30 June, 2006.

Using the initial public offer ("the IPO") price of HK\$3.075, the total distribution per unit represents a yield of 4.68%.

### **Unit Activity**

Since the listing of GZI REIT on 21 December, 2005, a total of 1,000,000,000 units were issued. The closing price as at 30 June, 2006 was HK\$3.10 which represents a slight increase compared to the IPO price of HK\$3.075.

GZI REIT's unit price reached a high of HK\$3.70 and a low of approximately HK\$2.85 during the 2006 Interim Period. The volume transacted during the 2006 Interim Period was 974,058,030 units, equivalent to an average of 8,050,066 units daily.

### **Asset Value**

The net assets attributable to the Unitholders per unit as at 30 June, 2006 was approximately HK\$3.144, which represents an increase of 4.2% as compared to net assets attributable to Unitholders per unit of approximately HK\$3.016 as at 31 December, 2005. The total net tangible assets attributable to Unitholders per unit as at 30 June, 2006 was approximately HK\$2.991, which represents an increase value per unit of 4.5% as compared to the net tangible assets attributable to Unitholders per unit of approximately HK\$2.863 as at 31 December, 2005.

The major reasons for the increases referred to above include the increase in profit after tax before transactions with Unitholders of approximately HK\$103,375,000 during the 2006 Interim Period.

## Financial Results

Both rental income and net property income were slightly higher than the forecasted figures disclosed in the Offering Circular. The following is a summary of GZI REIT's financial results during the 2006 Interim 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>Increase/</b> <b>(decrease)</b>
<b>Gross income</b>	<u>182,741</u>	<u>182,019</u>	0.4%
Leasing agents' fee	(6,097)	(6,063)	0.6%
Property related taxes	(14,137)	(14,339)	(1.4)%
Other property expenses <i>(Note 2)</i>	<u>(1,331)</u>	<u>(3,522)</u>	(62.2)%
<b>Total property operating expenses</b>	<u>(21,565)</u>	<u>(23,924)</u>	(9.9)%
<b>Net property income</b>	<u>161,176</u>	<u>158,095</u>	1.9%
Withholding tax	(17,477)	(17,352)	0.7%
Manager's fees	(11,445)	(10,967)	4.4%
Trustee's fees	(664)	(622)	6.8%
Other trust expenses <i>(Note 3)</i>	<u>(5,640)</u>	<u>(3,953)</u>	42.7%
Total non-property expenses	<u>(35,226)</u>	<u>(32,895)</u>	7.1%
<b>Profit before finance costs, interest income and tax</b>	125,950	125,201	0.6%
Interest income	2,257	1,371	64.6%
Finance costs - excluding amounts attributable to Unitholders	<u>(24,832)</u>	<u>(26,069)</u>	(4.7)%
<b>Profit after tax before transactions with Unitholders</b>	<u>103,375</u>	<u>100,503</u>	2.9%

Note 1 Based on the Profit Forecast together with the accompanying assumptions as disclosed in the Offering Circular and taking into account 50% portion of the forecasted income and expenses as attributable to the interim period of six months.

Note 2 Other property expenses include valuation fee, insurance premium and depreciation.

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

Profit after tax before transactions with Unitholders amounted to approximately HK\$103,375,000, which represents 2.9% increase compared with the 50% portion of the total net profit after tax estimated in the Profit Forecast as disclosed in the Offering Circular.

Gross revenue and net property income were approximately HK\$182,741,000 and approximately HK\$161,176,000 respectively, which exceeded the projections in the pro-rated Profit Forecast as disclosed in the Offering Circular by 0.4% and 2% respectively.

Property operating expenses reduced by 62% as compared to forecasted expenses as indicated in the pro-rated Profit Forecast as disclosed in the Offering Circular.

Other trust expenses increased by approximately HK\$1,687,000 as compared with the forecasted expenses as indicated in the pro-rated Profit Forecast as disclosed in the Offering Circular. This is mainly attributable to the increase in printing charges and unit registrar's fees as a result of an underestimation of number of investors and the increase in professional fees for services rendered by legal advisers, auditors and company secretaries.

## PERFORMANCE TABLE

The following table shows the performance of GZI REIT during the Relevant Period 2005 and the 2006 Interim Period:

	<b>11-day Period Ended 31 December, 2005</b>	<b>Six-month Period Ended 30 June, 2006</b>
Distributions per unit ( <i>Notes a and b</i> )	HK\$0.0405	HK\$0.1033
Earnings per unit	HK\$0.0405	HK\$0.1033
Net assets attributable to Unitholders value per unit	HK\$3.016	HK\$3.144
Net tangible assets attributable to Unitholders per unit	HK\$2.863	HK\$2.991
Offer price per unit upon listing	HK\$3.075	HK\$3.075
Closing price per unit	HK\$3.450	HK\$3.100
Yield per unit based on offer price	1.32%	3.36%
Yield per unit based on closing price	1.18%	3.33%
Number of units in issue	1,000,000,000 units	1,000,000,000 units
Highest premium of traded price to net assets attributable to Unitholders	HK\$0.759	HK\$0.556
Highest discount of traded price to net assets attributable to Unitholders	N/A	HK\$0.294
Total assets	HK\$4,466 million	HK\$4,563 million
Total liabilities, excluding net assets attributable to Unitholders	HK\$1,450 million	HK\$1,418 million
Net assets attributable to Unitholders	HK\$3,016 million	HK\$3,144 million
Net tangible assets (net assets attributable to Unitholders minus goodwill)	HK\$2,863 million	HK\$2,991 million
Total borrowings as a percentage of gross assets ( <i>Note c</i> )	29%	28%
Gross liabilities as a percentage of gross assets ( <i>Note d</i> )	33%	31%
Net property income	HK\$5.682 million	HK\$161.176 million

Note a: This represents a distribution of 100% on Total Distributable Income for each period. Total Distributable Income as defined in the Trust Deed is the amount calculated by the Manager as representing the consolidated audited or reviewed profit after tax of GZI REIT as adjusted for accounting purposes to eliminate the effects of accounting adjustments.

Note b: Total Distribution per unit for the period from December 21, 2005 (the Listing Day) to 30 June, 2006 is HK\$0.1438.

Note c: Total borrowings is calculated based on bank loan, but excluding capitalisation of debt-related expenses.

Note d: Gross liabilities is calculated based on total liabilities, but excluding capitalisation of debt-related expenses.



## LIST OF REAL ESTATE HELD BY GZI REIT

Information on the REIT Properties is summarized as follows:

<b>REIT Properties</b>	<b>Gross Rentable area as at 30 June, 2006 <i>square metres</i></b>	<b>Valuation as at 31 December, 2005 <i>HK\$'000</i></b>
White Horse Units	50,128.9	2,574,000
Fortune Plaza Units	40,356.2	554,800
City Development Units	42,397.4	392,000
Victory Plaza Units	27,262.3	533,000
The Properties	160,144.8	4,053,800

## 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 a US\$165 million three-year term loan facility. Total borrowings (excluding debt-related expenses) as a percentage of value of gross assets is 28% whilst total liabilities (excluding debt-related expenses) as a percentage of value of gross assets is 31%. 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 results of GZI REIT for the 2006 Interim Period have been reviewed by the Disclosures Committee and Audit Committee of the Manager.

## ISSUANCE OF 2006 INTERIM REPORT

The interim report of GZI REIT for the six months period ended 30 June, 2006 will be sent to Unitholders on or before 31 August, 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 the Securities and Futures Commission from time to time.

During the 2006 Interim Period, there was no re-purchase, sale or redemption of units of GZI REIT by GZI REIT or any of its subsidiaries.

## SUMMARY OF ALL REAL ESTATE SALES AND PURCHASES

GZI REIT did not enter into any real estate sale and purchase during the 2006 Interim Period.

## EMPLOYEES

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

## CORPORATE GOVERNANCE

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

During the 2006 Interim Period, the Manager has complied with the provisions of the Compliance Manual for its management of GZI REIT.

## CLOSURE OF REGISTER OF UNITHOLDERS

The register of Unitholders will be closed from Wednesday, 1 November 2006 to Tuesday, 7 November 2006, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with GZI REIT’s unit registrar, Tricor Investor Services Limited, of 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 31 October 2006.

## FINANCIAL STATEMENTS

The directors of the Manager are pleased to announce the condensed consolidated interim results of GZI REIT and its subsidiaries for the period from 1 January, 2006 to 30 June, 2006 as follows:-

### CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE, 2006

	<b>30 June, 2006</b>	<b>As at 31 December, 2005</b>
	<i>Unaudited HK\$’000</i>	<i>Audited HK\$’000</i>
<b>Non-current assets</b>		
Property, plant and equipment	11,664	3,395
Investment properties	4,053,800	4,053,800
Deferred assets	11,168	5,637

	<b>30 June, 2006</b>	<b>As at 31 December, 2005</b>
	<i>Unaudited HK\$'000</i>	<i>Audited HK\$'000</i>
Goodwill	152,917	152,917
Derivative financial instruments	<u>2,009</u>	<u>—</u>
	<u>4,231,558</u>	<u>4,215,749</u>
<b>Current assets</b>		
Rental receivables	193	320
Prepayments, deposits and other receivables	5,243	4,478
Cash and cash equivalents	325,544	235,917
Due from related companies	<u>—</u>	<u>9,810</u>
	<u>330,980</u>	<u>250,525</u>
<b>Total assets</b>	<u>4,562,538</u>	<u>4,466,274</u>
<b>Current liabilities</b>		
Rental deposits, current portion	7,479	6,138
Receipts in advance	17,582	21,842
Accruals and other payables	41,057	10,580
Due to related companies	<u>44,949</u>	<u>81,658</u>
	<u>111,067</u>	<u>120,218</u>
<b>Non-current liabilities, excluding net assets attributable to Unitholders</b>		
Rental deposits, non-current portion	59,743	63,695
Bank borrowings, secured	1,247,503	1,255,216
Derivative financial instruments	<u>—</u>	<u>11,231</u>
	<u>1,307,246</u>	<u>1,330,142</u>
<b>Total liabilities, excluding net assets attributable to Unitholders</b>	1,418,313	1,450,360
<b>Net assets attributable to Unitholders</b>	<u>3,144,225</u>	<u>3,015,914</u>
<b>Total liabilities</b>	<u>4,562,538</u>	<u>4,466,274</u>
<b>Net assets</b>	<u>—</u>	<u>—</u>
<b>Equity</b>		
Hedging reserve	13,655	(11,281)
Retained earnings/(deficit)	<u>(13,655)</u>	<u>11,281</u>
<b>Total equity</b>	<u>—</u>	<u>—</u>

	<b>30 June, 2006</b>	<b>As at 31 December, 2005</b>
	<i>Unaudited</i>	<i>Audited</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Units in issue ('000)	<u>1,000,000</u>	<u>1,000,000</u>
Net assets attributable to Unitholders per unit	<u>HK\$3.144</u>	<u>HK\$3.016</u>

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE, 2006**

	<b>Six months ended 30 June, 2006</b>
	<i>Unaudited</i>
	<i>HK\$'000</i>
Revenue — rental income	182,741
Operating expenses	<u>(56,791)</u>
Operating profit	125,950
Interest income from bank deposits	2,257
Finance costs — excluding amounts attributable to Unitholders	<u>(24,832)</u>
Profit before tax and transactions with Unitholders	103,375
Income tax expenses	<u>—</u>
Profit after tax before transactions with Unitholders	103,375
Finance costs attributable to Unitholders (i)	<u>(128,311)</u>
Result for the period	<u>(24,936)</u>

*Note:*

- (i) In accordance with the Trust Deed dated 7 December, 2005 (the "Trust Deed"), GZI REIT is required to distribute to Unitholders not less than 90% distributable income for each financial period. GZI REIT has a limited life of 80 years from the date of establishment. Accordingly, the units contain contractual obligations to pay cash dividends and also upon termination of the trust, a share of all net cash proceeds derived from the sale or realisation of the assets of GZI REIT less any liabilities, in accordance with Unitholders' proportionate interests in GZI REIT at the date of the termination of GZI REIT. The Unitholders' funds are therefore classified as a financial liability rather than equity in accordance with HKAS 32: Financial Instruments: Disclosure and Presentation. Consistent with Unitholders' funds being classified as a financial liability, the distributions to Unitholders are part of finance costs which are recognised in the income statement. The classification does not have an impact on the net assets attributable to the Unitholders. It only affects how Unitholders' funds are disclosed in the balance sheet and how distributions are disclosed in the income statement. Distributable income is determined in the Distribution Statement.
- (ii) Earnings per unit based upon profit after tax before transactions with Unitholders and the average number of units in issue, is presented in note 8.

- (iii) There are no comparative figures for the interim income statement as this is the first set of condensed consolidated interim income statement prepared for the Group since the date of its establishment, 7 December, 2005.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE, 2006**

	<b>Hedging reserve HK\$'000</b>	<b>Unaudited Retained earnings/ (deficit) HK\$'000</b>	<b>Total equity HK\$'000</b>
Balance at 1 January, 2006	(11,281)	11,281	—
Change in fair value of cash flow hedges	24,936	—	24,936
Result for the period	<u>—</u>	<u>(24,936)</u>	<u>(24,936)</u>
Balance at 30 June, 2006	<u><u>13,655</u></u>	<u><u>(13,655)</u></u>	<u><u>—</u></u>

**DISTRIBUTION STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE, 2006**

	<b>Six months ended 30 June 2006 Unaudited HK\$'000</b>
<b>Profit after tax before transactions with Unitholders</b>	103,375
Adjustments for the total distributable income (i)	<u>—</u>
Total distributable income for the period	103,375
Distributable amount at 1 January, 2006	40,543
Distribution declared during the period	<u>—</u>
Distributable amount at 30 June, 2006	<u><u>143,918</u></u>
Distribution per unit, proposed (ii)(iii)	<u><u>HK\$0.1438</u></u>

*Note:*

- (i) Under the terms of the Trust Deed, the total distributable income is the consolidated profit after tax before transactions with Unitholders adjusted to eliminate the effects of certain non-cash adjustments which have been recorded in the income statement for the relevant year or period. There are no such adjustments during the six months ended 30 June, 2006.
- (ii) Pursuant to the terms of Trust Deed, GZI REIT's first distribution will cover the period from 7 December, 2005 (date of establishment of GZI REIT) to 30 June, 2006 and will be paid on or before 30 November, 2006.
- (iii) At a meeting held on 24 August 2006, the Manager proposed a distribution of approximately HK\$0.1438 per unit. The proposed distribution is not reflected as distribution payable in this condensed interim financial information and will be reflected in the consolidated financial statements for the year ending 31 December 2006.

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE, 2006**

	<b>Six months ended</b> <b>30 June, 2006</b> <i>Unaudited</i> <i>HK\$'000</i>
Net cash generated from operating activities:	
Continuing operations	163,219
Interest expense paid on bank borrowings	<u>(20,849)</u>
 Cash flows from operating activities — net	 <u>142,370</u>
Net cash used in investing activities	
Decrease in an amount due to a related company	(55,000)
Interest received	<u>2,257</u>
 Cash flows from investing activities — net	 <u>(52,743)</u>
 Cash flows from financing activities — net	 <u>—</u>
 Increase in cash and cash equivalents	 89,627
Cash and cash equivalents at the beginning of the period	<u>235,917</u>
 Cash and cash equivalents at the end of the period	 <u><u>325,544</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1 General information

GZI Real Estate Investment Trust and its subsidiaries (collectively referred to as the “Group”) are 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 (the “Manager”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of GZI REIT (the “Trustee”) on 7 December, 2005 and authorised under section 104 of the Securities and Futures Ordinance (“SFO”) subject to the applicable conditions imposed by Securities and Futures Commission (“SFC”) from time to time. The address of its registered office is 24/F, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

GZI REIT is listed on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information was approved for issue by the Board of Directors of the Manager on 24 August, 2006.

### 2 Change in accounting policy

The adoption of Amendment to HKAS 39, Amendment ‘The fair value option’ has restricted the circumstances in which a financial asset or liability may be designated as at fair value through profit or loss and has resulted in a change in accounting policy relating to the measurement of net assets attributable to Unitholders, from fair value to amortised cost. The change in accounting policy has been made in accordance with the transitional provisions in the standard. The date of de-designation of net assets attributable to Unitholders as at fair value through profit or loss is deemed to be its date of initial recognition, which is 21 December 2005. At the date of de-designation, the fair value of the net assets attributable to Unitholders was approximately HK\$3,075,000,000.

The following are the effects of the changes in the accounting policy described above on individual account caption:

	<b>Effect on adoption of Amendment to HKAS 39, Amendment ‘The fair value option’ HK\$’000</b>
Income statement item for the six months ended 30 June 2006	
— change in fair value of units	<u>350,000</u>
Result for the period	<u>(350,000)</u>

The change in accounting policy does not have an impact on the net assets attributable to Unitholders as at 30 June 2006 and 31 December 2005.

### 3 Rental receivables, prepayments, deposits and other receivables - Group

	30 June, 2006 HK\$'000	31 December, 2005 HK\$'000
Rental receivables	193	320
Less: provision for impairment of receivables	<u>—</u>	<u>—</u>
Rental receivables — net	193	320
Prepayments, deposits and other receivables	<u>5,243</u>	<u>4,478</u>
	<u>5,436</u>	<u>4,798</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. All rental receivables at 30th June 2006 and 31st December 2005 are aged within 30 days.

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

### 4 Derivative financial instruments - Group

	<i>HK\$'000</i>
Interest rate and currency swaps — cash flow hedges For the six months ended 30th June 2006	
Balance at 1st January 2006	(11,231)
Fair value gains	<u>13,240</u>
Balance at 30th June 2006	<u>2,009</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

The notional principal amounts of the outstanding interest rate and currency swap contracts at 30 June, 2006 were US\$165,000,000.

At 30 June, 2006, 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 30 June, 2006 will be continuously released to the income statement until the repayment of the secured bank borrowings.



## 5 Expenses by nature

Operating expenses include the following:

	<i>HK\$'000</i>
Property management fee (i)	6,097
Urban real estate tax	4,725
Business tax and flood prevention fee	9,264
Withholding tax (ii)	17,477
Depreciation expenses of property, plant and equipment	341
Asset management fee	11,445
Trustee's remuneration	664
Valuation fee	40
Legal and professional fee	500
Auditors' remuneration	750
Bank charges	<u>16</u>

*Note:*

- (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.

## 6 Finance costs

	<i>HK\$'000</i>
Interest expense:	
- bank borrowings wholly repayable within five years	25,073
Net foreign exchange transaction gains	(11,937)
Fair value gains on financial instruments:	
- interest rate and currency swaps: cash flow hedge, transfer from reserve	<u>11,696</u>
	<u>24,832</u>

## 7 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 30 June, 2006.

**8 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 six months ended 30 June, 2006 is approximately HK\$0.1033. The calculation of earnings per unit is based on profit after tax before transactions with Unitholders of approximately HK\$103,375,000 and on 1,000,000,000 units in issue during the period.

Diluted earnings per unit is not presented as there is no dilutive instruments for the six months ended 30 June, 2006.

**9 Future minimum rental receivable — Group**

At 30 June, 2006, the Group had future minimum rental receivable under non-cancellable leases as follows:

	<i>HK\$'000</i>
Not later than one year	349,630
Later than one year and not later than five years	797,076
Later than five years	<u>27,036</u>
	<u><u>1,173,742</u></u>

**10 Employee benefit expense**

GZI REIT did not appoint any directors and the Group did not engage any employees during the period. As such, it has not incurred any employee benefit expense.

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

Hong Kong, 24th August, 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**