



GZI Real Estate Investment Trust

越秀房地產投資信託基金

(a Hong Kong collective investment scheme under section 104 of the Securities and Future Ordinance <chapter 571 of the Laws of Hong Kong>)
(Stock Code: 00405)



2010
Interim Report

MANAGER



越秀 房託資產管理有限公司
GZI REIT Asset Management Limited

Contents

| | |
|-------|---|
| 2 | PERFORMANCE SUMMARY |
| 3 | REPORT OF THE CHIEF EXECUTIVE OFFICER |
| 7 | GZI REIT PROFILE |
| <hr/> | |
| 7 | DISTRIBUTION |
| | MANAGEMENT DISCUSSION AND ANALYSIS |
| 8 | Business Review |
| 13 | Financial Review |
| 17 | CONNECTED PARTY TRANSACTIONS |
| <hr/> | |
| 25 | REVIEW REPORT OF THE INDEPENDENT AUDITOR |
| 26 | CONDENSED CONSOLIDATED INTERIM BALANCE SHEET |
| 28 | CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME |
| 29 | DISTRIBUTION STATEMENT |
| 30 | CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT |
| 31 | NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION |
| 45 | PERFORMANCE TABLE |
| 46 | CORPORATE AND INVESTOR RELATIONS INFORMATION |



Performance Summary

The following is a summary of GZI REIT's financial results during the 2010 and 2009 Interim Period:

(in Renminbi ("RMB"), unless otherwise specified)

| | Six months ended 30 June | | Change Increase % |
|-----------------------|--------------------------|-------------|----------------------|
| | 2010 | 2009 | |
| Gross Income | 240,432,000 | 230,623,000 | 4.3% |
| Net property income | 187,557,000 | 184,269,000 | 1.8% |
| Profit after tax | 273,235,000 | 114,107,000 | 139.5% |
| Earnings per unit | 0.2563 | 0.1070 | 139.5% |
| Distribution per unit | 0.1087 | 0.1036 | 4.9% |
| Equivalent to HK\$ | 0.1246 | 0.1175 | 6.0% |

| | 30 June | 31 December | Change Increase % |
|---|---------------|---------------|----------------------|
| | 2010 | 2009 | |
| Portfolio valuation | 5,220,000,000 | 5,082,000,000 | 2.7% |
| Net assets value | 3,734,000,000 | 3,587,000,000 | 4.1% |
| Net assets attributable to Unitholders per unit | 3.50 | 3.36 | 4.1% |

Report of the Chief Executive Officer



Dear Unitholders of GZI REIT,

On behalf of the management team of GZI REIT Asset Management Limited (“Manager”), Manager of GZI Real Estate Investment Trust (“GZI REIT”), I am very pleased to present to you the interim report of GZI REIT for the first half of 2010.

RESULTS AND DISTRIBUTIONS

Under the condition of the PRC (“China”) economy bouncing back on track, GZI REIT continues to attain good operation results during the first half of 2010. With the extraordinary efforts of the entire management team and the quality properties in the portfolio of GZI REIT, all key operation indicators have performed to expectations, showing a stable development trend.

For the period from 1 January 2010 to 30 June 2010 (“2010 Interim Period”), GZI REIT, declared an interim distribution of approximately RMB115,871,000 (approximately HK\$132,819,000), representing an increase of approximately RMB5,461,000 or approximately 4.9% over the declared interim distribution of RMB110,410,000 (approximately HK\$125,252,000) for the same period last year. Each unitholder will receive a distribution amount of approximately RMB0.1087 (HK\$0.1246) per unit, representing an increase of approximately 4.9% as compared to the distribution amount of RMB0.1036 (approximately HK\$0.1175) per unit for the same period last year. Based on the offer price of HK\$3.075 per unit at the time of listing, the distribution rate will be approximately 4.05%, whereas based on the closing price of HK\$3.29 per unit as at 30 June 2010, the distribution rate will be approximately 3.79%.

As at 30 June 2010, GZI REIT owned five properties (“Properties”), namely, White Horse Building Units (“White Horse Building”), Fortune Plaza units (“Fortune Plaza”), City Development Plaza Units (“City Development Plaza”), Victory Plaza Units (“Victory Plaza”) and Yue Xiu Neo Metropolis Plaza Units (“Yue Xiu Neo Metropolis”), with a total rentable area of 211,031.1 sq.m, of which a total area of 208,839.34 sq.m is currently leased out. The overall occupancy rate of the Properties is 98.96%, representing an increase of 1.4% percentage point as compared to the same period last year.

Report of the Chief Executive Officer

For the 2010 Interim Period, GZI REIT recorded a total revenue of approximately RMB240,432,000, representing an increase of 4.3% as compared to RMB230,623,000 for the same period last year. The rent collection rate continued to remain at 100% without bad debts. All of the Properties were under stable operation with persistent and steady growth.

MARKET ANALYSIS

During the first half of 2010, the world economy was recovering gradually yet not without bigger uncertainties. The Chinese economy stuck to turning for the better and the economy was developing toward the planned direction of the macro regulation.

According to the data released by the National Bureau of Statistics, the gross domestic product (GDP) of China for the first half of the year amounted to RMB17,284.0 billion, representing a growth of 11.1% year-on-year. Total retail sales of social consumables amounted to RMB7,266.9 billion, representing a growth of 18.2% year-on-year. In June, the selling prices of properties in 70 large and medium cities in China rose by 11.4% year-on-year.

When compared with the national economy, the overall economy of Guangzhou was operating in a well and sound trend. According to the data released by the Guangzhou Bureau of Statistics, the GDP of Guangzhou was approximately RMB488.601 billion during the first half of the year, representing a growth of 13.6% over the same period year-on-year. Completed real estate investment amounted to RMB35.368 billion, increased by 24.4%. With popular sales in commodity housing units, sales amount recorded 23.6% growth year on year.

BUSINESS OPERATING STRATEGIES

By adequately taking advantage of the good opportunities brought by the improving economy showing a signal of turn for the better, the Manager adopted specific assets strategies for the five Properties under GZI REIT so as to optimize the competitiveness of the Properties and achieve constant growth of the asset portfolio revenue.

The White Horse Building is the core focus of the asset portfolio of GZI REIT. During the first half of the year, the Manager spared no effort in enhancing the asset quality by pushing ahead with work on Level 3 to secure its market positioning and floor layout optimization adjustment, uplifting the influence of White Horse brand, firming up its leading position in the fashion industry and competitiveness of the Property by actively creating marketing tools to become the first in the domestic fashion industry, further successfully carried out “The Nationwide Circuit Show of White Horse Clothes”, and created conditions for persistent rental yields growth by adopting effective leasing strategies, maintaining good business relationship with customers, and paying close attention to the demands of the tenants.

Both Fortune Plaza and City Development Plaza are Grade A office projects. By formulating and implementing flexible and effective strategies of leasing and investment invitation, and taking measures to have successfully deepened customer relationship management, optimized business environment and actively handled expiring leases, the Manager succeeded in retaining many renowned internal tenants and avoiding the loss of quality customers in a fiercely competitive market. Meanwhile, an insurance company, one of the World Top 500 enterprises, was invited to City Development Plaza, thereby further optimizing the tenant mix and establishing the foundation for long term rental yields growth.



The Yue Xiu Neo Metropolis is multiple functional commercial offices. The Manager reduced the risk of falling occupancy rate by actively managing the expiring leases and vacant units, and creating customer base in advance, and actively implemented the strategies of tenant optimization and successfully brought in a renowned international tourist customer, thereby a satisfactory long term yields of the Property can be expected and fulfilled.

The Victory Plaza is the only retail commercial project in the current asset portfolio. The Manager held distinctive promotion events that raised the reputation and influence of Victory Plaza and enhanced the operation and sales of the internal commercial tenants. In addition, the Manager greatly helped the prominent commercial tenant, Gome Electric Appliance, to expand its leased areas and built the “Xin Huo Guan” concept store, making Victory Plaza theme store becoming more noticeable and prominent, further resulting in considerable increase in rental yields of the Property after its successful optimization and adjustment measures.

INVESTMENT AND FINANCIAL STRATEGY

During the 2010 Interim Period, the Manager continued to adopt active and prudent investment and financial principles. After an adequate and thorough assessment of the market conditions and the capital market circumstances, investment opportunities were adopted after careful consideration to upkeep the long term interest of the Unitholders. Meanwhile, keeping a close watch over the precious business opportunities in the first tier cities in China brought by the various economic structure, key industry development and the overall substantial growth, the Manager are actively identifying the investment regions and property types suitable for investment by GZI REIT, in order to realize more complete and balanced returns and establish a solid foundation for capital growth and stable rental yields.

The GZI REIT implemented stable financial strategies. As at 30 June 2010, the gearing ratio (total borrowings to total assets) was maintained at 31.2%, which was still a long way from the upper limit of 45% as required under the Code on REIT. A lower gearing ratio provides an advantage in the acquisition of the third party properties. Further expansion of the properties portfolio provides long term benefits to Unitholders.

ASSET APPRECIATION STRATEGIES

The Manager implemented various capital appreciation strategies for Property projects owned by GZI REIT and vigorously undertook assets improvement and appreciation projects in order to further make good use of the potential of Property portfolio. In particular, strategic layout modification and renovation made in part of the White Horse floors further enhanced the overall trading and marketing capacity of the tenants, thereby finally increasing the rental yields above the market average yields.

The completed appreciation projects in the first half of the year included installation of additional lifts in Yue Xiu Neo Metropolis. The renovation of No 3 and No 4 lifts in White Horse Building, and the renovation of air conditioning and fire control and power supply and distribution in City Development Plaza are currently carried out smoothly.

PROSPECTS

It is expected during the second half of the year, the Chinese economy will continue its recovery trend, and the Chinese government will continue to pursue mildly non-stringent monetary policy. Macro regulation will become more specific and flexible, and the global economy also will constantly get new impetus from the Chinese economic development.

Report of the Chief Executive Officer

During the second half of the year, Guangzhou will undertake city development and stimulate mass consumption by taking advantage of the holding of Asian Athletic Meeting, which will eventually benefit the retails and wholesale industry. The new supply of office building will be suspended temporarily in the coming fourth quarter due to the impact of the Asian Athletic Meeting, and the market will remain steady.

We are cautiously optimistic and believe that under constant growth of the Chinese economy, the Manager of the GZI REIT, through implementing active and stable leasing strategies, together with effective asset value enhancement measures and grasping potential investment opportunities, will continue to bring in relatively stable returns for Unitholders.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to extend our appreciation to the management and all the staff for their hard work, and our appreciation to all Unitholders, tenants and business partners for their full cooperation and support to GZI REIT!

Liu Yongjie
Chief Executive Officer

Hong Kong, 5 August 2010

GZI REIT Profile



GZI REIT is a Hong Kong real estate investment trust constituted by a trust deed dated 7 December 2005 as amended by a first supplemental deed dated 25 March 2008 (collectively the “Trust Deed”), and made between HSBC Institutional Trust Services (Asia) Limited as the trustee (“Trustee”) and the Manager. GZI REIT was listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 21 December 2005 (“Listing Date”).

GZI REIT’s property portfolio comprises five commercial properties located in Guangzhou and GZI REIT is the first publicly listed real estate investment trust in the world which invests in domestic properties in the China.

DISTRIBUTION

In accordance with the Trust Deed, GZI REIT will distribute no less than 90% of Total Distributable Income to the Unitholders.

The Manager has resolved to declare an interim distribution to Unitholders for the 2010 Interim Period of approximately RMB0.1087 which is equivalent to HK\$0.1246 (2009: approximately RMB0.1036 which is equivalent to HK\$0.1175) per unit. This represents a 100% distribution of GZI REIT’s Total Distributable Income for the 2010 Interim Period.

The 2010 interim distribution amounting to approximately RMB115,871,000 which is equivalent to HK\$132,819,000 (2009: approximately RMB110,410,000 which is equivalent to HK\$125,252,000), in aggregate, will be effected on 28 October 2010 and HK\$0.1246 (equivalent to RMB0.1087) per unit will be paid, to the Unitholders whose names appear on the register of Unitholders on 20 September 2010.

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

The Manager has calculated the Total Distributable Income based on GZI REIT’s consolidated profit after tax before transactions with the Unitholders adjusted to eliminate the effects of certain non-cash items which have been recorded in the statement of comprehensive income for the relevant year or period.

Distribution payable to unitholders are paid in Hong Kong dollars. The exchange rate adopted by the Manager is the average closing exchange rate, as announced by the People’s Bank of China, for the five business days preceding the date of declaration of dividends.

Distribution Per Unit

Distribution to Unitholders for the 2010 Interim Period of HK\$0.1246 (2009: HK\$0.1175) per unit represents a yield of approximately 3.79% (2009: 4.66%) per unit based on the closing price of HK\$3.29 per unit as at 30 June 2010 (2009: HK\$2.52). This represents an annualized distribution yield of 7.57%.

Management Discussion and Analysis

BUSINESS REVIEW

Quality property portfolio generates stable growth in operating income

In mid-2010, with the Chinese macroeconomic situation gradually turning for the better, GZI REIT actively grasped the opportunity to plan and perform specific and relatively aggressive leasing strategies further consolidating the operation and yields of the Properties. The overall operation revenue continued to grow steadily and the results are satisfactory.

PROPERTY PORTFOLIO

As at 30 June 2010, GZI REIT consists of five properties- White Horse Building, Fortune Plaza, City Development Plaza, Victory Plaza and Yue Xiu Neo Metropolis. The aggregate area of ownership was approximately 223,614.3 sq.m.; total rentable area was approximately 211,031.1 sq.m. (excluding Yue Xiu Neo Metropolis, 7,549.03 sq.m. of parking space and 4,528.06 sq.m. of clubhouse and common facilities area, and the following statistics of both current rented aggregate area and occupancy rate exclude the above area).

According to an interim valuation by an independent professional valuer, Vigers Appraisal and Consulting Limited (“Vigers”), the valuation of the Properties of GZI REIT as at 30 June 2010 was in the aggregate amount of approximately RMB5.22 billion, representing an increase of approximately HK\$0.138 billion or 2.7% over the valuation on 31 December 2009. The Net assets attributable to unitholders per unit was approximately RMB3.5, which increased by 4.1% over the net assets attributable to unitholders per unit on 31 December 2009.

The following table summarizes the valuation of each of the Properties as at 30 June 2010 and 31 December 2009:

| Property Name | Valuation as at | Valuation as at | Increase/ (decrease) % |
|-------------------------|--------------------------------|------------------------------------|------------------------------|
| | 30 June 2010 RMB million | 31 December 2009 RMB million | |
| White Horse Building | 2,943.0 | 2,878.5 | 2.2% |
| Fortune Plaza | 608.5 | 590.5 | 3.0% |
| City Development Plaza | 431.0 | 419.0 | 2.9% |
| Victory Plaza | 596.0 | 543.0 | 9.8% |
| Yue Xiu Neo Meteropolis | 641.5 | 651.0 | (1.5)% |
| Total | <u>5,220.0</u> | <u>5,082.0</u> | 2.7% |



The following table shows particulars of the properties:

| Property | Type | Location | Year of Completion | Area of Ownership (Sq.m.) | Total Rental Area (Sq.m.) | Property Occupancy Rate ⁽²⁾ | # of Lease Contract ⁽²⁾ | Appraised Value ⁽²⁾ (RMB million) |
|------------------------|---------------------------|-----------------|--------------------|---------------------------|---------------------------|--|------------------------------------|--|
| White Horse Building | Wholesale shopping center | Yuexiu District | 1990 | 50,199.3 | 50,128.9 | 99.76% | 1,100 | 2,943.0 |
| Fortune Plaza | Grade A office | Tianhe District | 2003 | 41,355.2 | 41,355.2 | 98.81% | 73 | 608.5 |
| City Development Plaza | Grade A office | Tianhe District | 1997 | 42,397.4 | 42,397.4 | 99.51% | 66 | 431.0 |
| Victory Plaza | Retail shopping center | Tianhe District | 2003 | 27,698.1 | 27,262.3 | 99.96% | 20 | 596.0 |
| Yue Xiu Neo Metropolis | Commercial complex | Yuexiu District | 2007 | 61,964.3 | 49,887.3 ⁽¹⁾ | 97.27% ⁽¹⁾ | 112 | 641.5 |
| Total | | | | <u>223,614.3</u> | <u>211,031.1</u> | 98.96% | <u>1,371</u> | <u>5,220.0</u> |

Note: (1) excluding 7,549.03 sq.m. of parking space and 4,528.06 sq.m. of clubhouse and common facilities area;

(2) As at 30 June 2010.

OCCUPANCY RATE STAYED AT HIGH LEVELS

As at 30 June 2010, the overall occupancy rate of the Properties was approximately 98.96%, representing 1.43 percentage higher than 97.53% for the same period last year. In particular, the overall vacancy rate of the three office properties, namely Fortune Plaza, City Development Plaza and Yue Xiu Neo Metropolis, was only 1.54%, much lower than the average vacancy rate of 14.3% or above of offices in the same district of Guangzhou City.

The following table sets out a comparison of occupancy rates in respect of all the Properties between this interim period and the same period of previous year:

| Name of Property | Occupancy Rate as at 30 June 2010 | Occupancy Rate as at 30 June 2009 | Percentage Increase Compared to 30 June 2009 |
|------------------------|-----------------------------------|-----------------------------------|--|
| White Horse Building | 99.76% | 99.63% | 0.13% |
| Fortune Plaza | 98.81% | 97.88% | 0.93% |
| City Development Plaza | 99.51% | 97.88% | 1.63% |
| Victory Plaza | 99.96% | 95.41% | 4.55% |
| Yue Xiu Neo Metropolis | 97.27% | 95.99% | 1.28% |
| Total | 98.96% | 97.53% | 1.43% |

Management Discussion and Analysis

REVENUE CONTINUED TO INCREASE

For 2010 Interim Period, the Properties recorded revenue of approximately RMB240,432,000, representing a 4.3% increase compared to that of the previous year. In particular, White Horse Building, Fortune Plaza, City Development Plaza, Victory Plaza and Yue Xiu Neo Metropolis accounted for approximately 57.2%, 12.0%, 10.2%, 10.2% and 10.4% respectively of the total revenue of the Properties.

No bad debt was recorded during this Interim Period.

The following table sets out a comparison of revenue in respect of all the Properties between this interim and the same period of previous year:

| Name of Property | Revenue For 2010 Interim Period RMB million | Revenue For 2009 Interim Period RMB million | Increase/ (Decrease) Compared to 2009 Interim Period RMB million | Increase/ (Decrease) of Revenue From Property % |
|------------------------|--|--|---|---|
| White Horse Building | 137.5 | 131.8 | 5.7 | 4.3% |
| Fortune Plaza | 28.8 | 27.3 | 1.5 | 5.5% |
| City Development Plaza | 24.5 | 24.9 | (0.4) | (1.6)% |
| Victory Plaza | 24.5 | 22.1 | 2.4 | 10.9% |
| Yue Xiu Neo Metropolis | 25.1 | 24.5 | 0.6 | 2.4% |
| Total | 240.4 | 230.6 | 9.8 | 4.3% |



White Horse Building-innovation reinforces its remarkable industry leadership

Successfully holding the “White Horse Fashion Market 2010 Nationwide Circuit Show” in the first half of the year as part of the efforts to create and expand its marketing promotional mode, White Horse Building organized for many of its tenants, fashion brand retailers to participate in numerous brand-to-brand activities in fashion distribution centers in cities like Beijing and Zhengzhou, which was first of its kind in domestic fashion market, and won great acclamation from its peers. Meanwhile White Horse fashion center was accredited as “The Incubation base of China Fashion Brand” in the first half of the year, consequently, White Horse further showed its leadership in fashion industry. In terms of marketing operation innovation, White Horse Building launched great efforts in achieving operational positioning adjustment and floor layout renovation on Level 3, thereby enhancing rental yields and competitiveness of the Property. In addition, through deepening tenant relationship management and organizing customers to attend influential industry activities, White Horse Building drew closer relationship among fashion peers and broadened its customers’ product marketing channels. White Horse Building continued to strengthen traditional media propagation while constructing an e-commerce transaction platform with such remarkable results that the comprehensive competition capacity of the Property was advanced, and a solid foundation for constant revenue growth of the Property was established.

Fortune Plaza and City Development Plaza-actively grasping every opportunity to enlarge quality customer recourses

During the first half of the year, supply-and-demand of office building in Guangzhou gradually turned into a balanced and healthy trend, and the overall leasing market conditions were slightly better than last year. Located in the traditional business areas of Guangzhou, Fortune Plaza and City Development actively grasped every business opportunities, kept a close watch over dynamic operation of quality tenants, effectively managed the expiring leases, strengthened marketing planning and customer attraction, encouraged internal quality customers to expand their leased areas, so as to secure a higher occupancy rate and stable rental yields were realized. In particular, Fortune Plaza managed to renew the leases with existing tenants including a number of the World Top 500 like “AstraZeneca”, “LG Chemical”, “Manpower” and other famous companies, thereby achieving relatively ideal rental level. Continuing to optimize the tenants mix and bringing in more quality customers, City Development Plaza completed the expansion of leased areas of “Easy Fonda” and concluded the leasing of a whole floor unit for the World Top 500 “AIA Insurance”, thereby further stabilizing the overall operation.

Victory Plaza-highlighting features to progress by taking advantage of opportunities

At Victory Plaza, we actively encouraged our prominent commercial tenant “GOME Home Appliance” to expand the leased areas on the first and second floor of the building, so that “GOME Home Appliance and Victory Xin Hue Guan” could realize its goal in position turning, further consolidated its leadership in Southern China and strengthening its market competition advantages, thereby providing solid guaranty for the long term yields of Victory Plaza. Meanwhile through holding Victory “2010 Shopping Carnival” as part of the effort to continue strengthening marketing promotion, we effectively brought in increased flow of consumers and increased the commercial tenants’ confidence in marketing, thus raising the reputation of Victory Plaza and enlarging the influence of Tianhe commercial circle.

Yue Xiu Neo Metropolis-effectively managing the expiring leases and actively bringing in more quality customers

With many leases expiring this year at this Plaza, we worked hard to enhance the leasing staff’s capacity in planning business operation and attracting customers, trying to reduce the unoccupied period of vacant units and expiring units. At the same time we succeeded in introducing Star Cruises under “Gentling (Hong Kong) Group” as part of the effort to bring in and retain quality customers, which optimized the customer mix.

Management Discussion and Analysis

Actively propelling the asset enhancement project, achieving property value preservation and appreciation

In the first half of 2010, the Manager completed the installation of additional lifts in Yue Xiu Neo Metropolis, after putting new lifts into use, the vertical transportation of Yue Xiu Neo Metropolis got remarkable improvement, and the waiting interval during peak hours was greatly reduced by over a half, thereby enhancing the competition advantages of the Property.

With the completion of both the renovation of the hall in Fortune Plaza and the renovation of the sixth floor and the mall stairs in White Horse Building, the commercial environment of the project made effective improvements.

In the second half of the year, the Manager will schedule to undertake projects such as renovation of No.3 and No.4 lifts in White Horse, as well as the renovation of the air conditioning, fire prevention, power supply system in City Development. The investment budget is approximately RMB13.75 million.

Actively making preparations and capturing every opportunity to proceed with acquisitions

Currently, White Horse Building has the largest percentage in operation revenue and profit of the GZI REIT, representing about 57.2% and 59.2% respectively. The Manager believes that incorporation of new real estate projects will reduce the risk of relying on single project and will stabilize the property portfolio of fund.

In the first half of 2010, the Manager has taken positive actions to continue identifying value-added projects in cities nationwide, aiming to achieve project acquisitions under the currently slowing-down real estate market, to improve the property portfolio, to expand the source of operation revenue, and thereby to enhance the long-term benefits of unit holders.



FINANCIAL REVIEW

Financial Results

Both rental income and net property income were higher than the interim period of 2009. The following is a summary of GZI REIT's financial results during the 2010 Interim Period:

| | Six months ended 30 June | | Increase/ (decrease) % |
|--|------------------------------|------------------------------|------------------------------|
| | 2010 Unaudited RMB'000 | 2009 Unaudited RMB'000 | |
| Gross income | 240,432 | 230,623 | 4.3% |
| Leasing agents' fee | (8,292) | (7,834) | 5.8% |
| Property related taxes (Note 1) | (41,269) | (36,119) | 14.3% |
| Other property expenses (Note 2) | (3,314) | (2,401) | 38.0% |
| Total property operating expenses | (52,875) | (46,354) | 14.1% |
| Net property income | 187,557 | 184,269 | 1.8% |
| Withholding tax | (21,606) | (20,488) | 5.5% |
| Manager's fees | (14,054) | (14,162) | (0.8)% |
| Trustee's fees | (845) | (840) | 0.6% |
| Other trust expenses (Note 3) | (1,839) | (860) | 113.8% |
| Total non-property expenses | (38,344) | (36,350) | 5.5% |
| Profit before finance costs, interest income and tax | 149,213 | 147,919 | 0.9% |
| Interest income | 1,182 | 934 | 26.6% |
| Finance costs — excluding amounts attributable to Unitholders | (8,647) | (32,973) | (73.8)% |
| Profit before tax | 141,748 | 115,880 | 22.3% |
| Income tax expenses | (3,980) | (4,796) | (17.0)% |
| Net Profit after tax before fair value gains on investment properties | 137,768 | 111,084 | 24.0% |
| Fair value gains on investment properties | 135,467 | 3,023 | 4381.2% |
| Net Profit after tax before transactions with Unitholders | 273,235 | 114,107 | 139.5% |

Note 1 Property related tax includes real estate tax, land used right tax, business tax and stamp duties.

Note 2 Other property expenses include valuation fee, insurance premium, depreciation and other operating expenses incurred at the level of the properties.

Note 3 Other trust expenses include audit fees, printing charges, unit registrar's fees, listing fees, legal advisory fee, company secretarial services fees, exchange difference and miscellaneous expenses.

Management Discussion and Analysis

Gross income was approximately RMB240,432,000 (2009: RMB230,623,000), which represents an increase of 4.3%. It is mainly because of an increase in average rent and the occupancy rate. The average rental income per square meter per month of five premises as at 30 June 2010 was approximately RMB196 (2009: RMB189).

Property related tax increased by approximately 14.3% as compared with 2009. It is mainly because of an increase of real estate tax due to the real estate tax free period of Yue Xiu Neo Metropolis is expired at the beginning of 2010.

Due to the depreciation of Hong Kong dollar against Renminbi during mid-2010, a favourable exchange gain in RMB16,803,000 was deducted from the financial cost of HK\$2.1 billion term loan, excluding this favourable adjustment, the actual financial cost for the said 2.1 billion term loan was RMB25,450,000.

Profit after tax before transactions with Unitholders amounted to approximately RMB273,235,000 (2009: RMB114,107,000), which represents 139.5% increase, mainly due to the fair value gain on properties valuation for the 2010 Interim Period being approximately RMB135,467,000, far higher than the amount of approximately RMB3,023,000 recorded for the same period of last year.

New Units Issued and Unit Activity

There were no new units issued by GZI REIT during the 2010 Interim Period. As at 30 June 2010, a total of 1,065,972,687 units were issued by GZI REIT.

The closing price of GZI REIT as at 30 June 2010 was HK\$3.29 per unit which represents a 6.99% increase compared to the IPO price of HK\$3.075 per unit. GZI REIT's unit price reached a high of HK\$3.57 and a low of approximately HK\$2.94 during the 2010 Interim Period. The volume transacted during the 2010 Interim Period was approximately 198,575,000 units, equivalent to an average of approximately 1,641,000 units daily.

Asset Value

The net assets attributable to the Unitholders per unit as at 30 June 2010 was approximately RMB3.50 (31 December 2009: RMB3.36).



CAPITAL STRUCTURE

On 6 November 2008, GZI REIT has, through its SPVs, entered into a facility agreement with certain lending banks in connection with a three-year floating rate secured term loan facility of HK\$2.1 billion. The new loan was drawn down on 12 November 2008.

As at 30 June 2010, total borrowings of GZI REIT amounted to approximately RMB1.811 billion which is approximately HK\$2.076 billion (total borrowings are calculated based on bank loan, but excluding capitalization of debt-related expenses), representing approximately 31.2% of total assets of GZI REIT.

As at 30 June 2010, total liabilities of GZI REIT (excluding net assets attributable to the Unitholders) amounted to approximately RMB2.072 billion, representing approximately 35.7% of total assets of GZI REIT.

The abovesaid gearing ratios are below the maximum borrowing limit of 45% as stipulated by the REIT Code.

Cash Position

Cash balance of GZI REIT as at 30 June 2010 amounted to approximately RMB372,490,000 which is approximately HK\$426,972,000. GZI REIT has sufficient financial resources to satisfy its financial commitments and working capital requirements.

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

CHANGE OF PRESENTATION CURRENCY

During the period ended 30 June 2010, GZI REIT has changed its presentation currency for the preparation of its financial statements from Hong Kong currency to Renminbi. The Board considers the change will result in a more appropriate presentation of GZI REIT's operations and transactions in its financial statements as most of its transactions are conducted and denominated in RMB. The comparative figures in these financial statements have been arrived at using the closing exchange rate for balance sheet items as at 31 December 2009 and average exchange rate for the period under review for income statement items, i.e. 1 January 2009 to 30 June 2009.

The change in presentation currency has no significant impact on the financial position of GZI REIT as at 30 June 2010 and 2009, or the results and cash flows of GZI REIT for the period ended 30 June 2010 and 2009.

REVIEW OF FINANCIAL RESULTS

The results of GZI REIT for the 2010 Interim Period have been reviewed by the Disclosures Committee and Audit Committee of the Manager and by the GZI REIT's auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

ISSUANCE OF 2010 INTERIM REPORT

The interim report of GZI REIT for the six months ended 30 June 2010 will be published on the websites of the Stock Exchange and GZI REIT and will be sent to Unitholders on or before 31 August 2010.

Management Discussion and Analysis

REPURCHASE, SALE OR REDEMPTION OF UNITS

GZI REIT may, subject to the fulfillment of certain requirements, purchase its own Units on the Stock Exchange.

During the 2010 Interim Period, there was no repurchase, 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 2010 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 (“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 2010 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, 15 September 2010 to Monday, 20 September 2010, 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, 14 September 2010.

Connected Party Transactions

The connected party transaction rules of the REIT Code govern transactions between the GZI REIT Group and its connected persons (as defined in Rule 8.1 of the REIT Code). Such transactions will constitute connected party transactions for the purposes of the REIT Code.

The Manager and Significant Holder Group

Set out below is the information in respect of the connected party transactions involving GZI REIT and its connected persons:

Leasing Transactions

Certain portions of City Development Plaza and Yue Xiu Metropolis have been leased to connected parties (as defined in the REIT Code) of GZI REIT in relation to the Manager (“Manager Group”). Details are as follows:

| Tenant | Location of unit | Relationship with GZI REIT | GFA (sq.m.) | Lease commencement/renewal date | Monthly rent (RMB) | Monthly rent per sq.m. (RMB) | Rent free period (days) | Term (years) | Rental income during 2010 Interim Period (RMB) |
|--|--------------------------|-----------------------------|-------------|---------------------------------|--------------------|------------------------------|-------------------------|--------------|--|
| City Development Plaza | | | | | | | | | |
| Guangzhou Yicheng Property Management Limited (“Yicheng”) ⁽¹⁾ | 1st floor | an associate of the Manager | 97.0 | 1 May 2007 | 485 | 5 | 0 | 3 | 2,910 |
| Yuexiu Property Company Limited (“YXP”) | 16th floor | a significant holder | 1,060.5 | 1 Jan 2010 | 100,747 | 95 | 0 | 1 | 604,482 |
| Guangzhou office of Yue Xiu | 16th floor | a significant holder | 46.1 | 1 Jan 2010 | 4,380 | 95 | 0 | 1 | 26,280 |
| Guangzhou Xingye Real Estate Agent Co., Ltd. (Xingye) | 24th floor | an associate of the Manager | 818.07 | 1 Feb 2009 | 81,807 | 100 | 0 | 3 | 490,842 |
| Guangzhou City Construction & Development Co., Ltd (“GCCD”) | 24D | an associate of the Manager | 208.19 | 1 Sep 2009 | 19,778 | 95 | 0 | 2 | 118,668 |
| GCCD | 17CD | an associate of the Manager | 334.64 | 16 Jan 2010 | 31,791 | 95 | 0 | 1 | 175,363 |
| | | | | | | | | Sub-total: | 1,418,545 |
| Yue Xiu Metropolis | | | | | | | | | |
| Guangzhou White Horse Clothing Market | Basement 2nd, 3rd floors | an associate of the Manager | 7,621.03 | 1 Aug 2009 | 100,000 | 13 | 0 | 3.42 | 585,910 |
| | | | | | | | | Total: | 2,004,455 |

- (1) On 30 April 2010, Yicheng entered into a lease with Full Estates, in respect of the 1st floor of City Development Plaza, renewing the existing term for another 3 years commencing 1 May 2010.

Connected Party Transactions

Property Management Agreements

The following table sets forth information for the year in relation to the property management services provided by the connected parties to the properties of GZI REIT:

| Property Manager | Relationship with GZI REIT | Property | Date of Agreement | Nature of transaction | Amount paid/ payable for 2010 Interim Period (RMB) |
|--|----------------------------|------------------------|-------------------|-------------------------------|--|
| Guangzhou White Horse Property Management Co. Ltd. ("White Horse Property Manager") | Associate of Manager | White Horse Building | 18 Oct 2008 | Property Management Agreement | N/A |
| Yicheng | Associate of Manager | Fortune Plaza | 1 Jul 2008 | Property Management Agreement | N/A |
| Yicheng | Associate of Manager | City Development Plaza | 19 Jul 2008 | Property Management Agreement | N/A |
| Yicheng | Associate of Manager | Victory Plaza | 7 Dec 2005 | Property Management Agreement | N/A |
| Yicheng | Associate of Manager | Yue Xiu Metropolis | 28 Dec 2007 | Property Management Agreement | N/A |

Tenancy services agreements

The following table sets forth information for the year in relation to the tenancy services provided by the connected parties to the properties of GZI REIT:

| Service provider | Relationship with GZI REIT | Property | Date of Agreement | Nature of transaction | Amount paid/ payable for 2010 Interim Period (RMB) |
|------------------------------|----------------------------|------------------------|-------------------|----------------------------|--|
| White Horse Property Manager | Associate of Manager | White Horse Building | 8 Dec 2008 | Tenancy Services Agreement | 4,124,000 |
| Yicheng | Associate of Manager | Fortune Plaza | 8 Dec 2008 | Tenancy Services Agreement | 1,130,000 |
| Yicheng | Associate of Manager | City Development Plaza | 8 Dec 2008 | Tenancy Services Agreement | 1,023,000 |
| Yicheng | Associate of Manager | Victory Plaza | 8 Dec 2008 | Tenancy Services Agreement | 979,000 |
| Yicheng | Associate of Manager | Yue Xiu Metropolis | 2 Jun 2008 | Tenancy Services Agreement | 1,006,000 |
| Yicheng | Associate of Manager | Fortune Plaza 1701 | 24 Aug 2008 | Tenancy Services Agreement | 30,000 |



Trade Mark Licence Agreements

The following table sets forth information for the year in relation to the trade mark licences granted by the connected parties to GZI REIT:

| Grantor | Relationship with GZI REIT | Property | Nature of transaction | Amount paid/ payable for 2010 Interim Period | Licence Period |
|------------------------------|----------------------------|----------------------|----------------------------------|--|--|
| White Horse Property Manager | Associate of Manager | White Horse Building | Trade Mark Licence Agreement (6) | — | 1 January 2007 to 27 November 2016 and 30 January 2017 |
| Yue Xiu | Associate of Manager | Fortune Plaza | Trade Mark Licence Agreement | — | Perpetuity subject to early termination terms |

Waiver from Strict Compliance

A waiver from strict compliance with the disclosure and approval requirements under Chapter 8 of the REIT Code in respect of the existing leasing transactions of GZI REIT, the existing property management arrangement and the tenancy services agreement of the existing properties, together with the new leasing transaction, the new property management arrangement and the new tenancy services agreement, as mentioned above, between the Group and persons which are connected with GZI REIT as a result of their connection with the Manager has been granted by the SFC on 21 February 2008, subject to annual limitation as to the capped value of such transactions, review by the auditors for each relevant financial period, annual review by the Audit Committee and the independent non-executive directors (“INED”) and other terms and conditions. For detailed terms and conditions of the waiver, please refer to the circular dispatched to Unitholders on 4 February 2008.

HSBC Group*

(*Note: “HSBC Group” means The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) and its subsidiaries and, unless expressly stated, shall not include the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee except those subsidiaries formed in its capacity as the trustee of GZI REIT)).

Leasing Transactions

Certain portions of the Fortune Plaza Units have been leased to members of the HSBC Group. Details are as follows:

| Tenant | Location of unit | GFA (sq.m.) | Lease commencement date | Monthly rent (RMB) | Monthly rent per sq.m. (RMB) ⁽¹⁾ | Rent free period (days) | Term (years) | Rental income for the 2010 Interim Period (RMB) |
|---|------------------|-------------|-------------------------|--------------------|---|-------------------------|--------------|---|
| HSBC Software Development (Guangdong) Limited | 4th storey | 4,275.1 | 1 Feb 2008 | 410,751 | 96 | 0 | 3 | 2,327,600 |
| | 5th storey | 4,275.1 | 1 Feb 2008 | 410,751 | 96 | 0 | 3 | 2,327,600 |
| | 3rd storey | 2,000 | 1 Dec 2006 | 192,160 | 96 | 60 | 4.2 | 1,020,000 |
| Total: | | | | | | | | 5,675,200 |

(1) With effect from 1 February 2010, the rent per meter was adjusted to approximately RMB96 per month.

Connected Party Transactions

Corporate Finance Transactions and Ordinary Banking Services

The following table sets forth information for the year in relation to the Corporate Finance Transactions made between the HSBC Group and GZI REIT within the year:

| Nature of transaction | Date of agreement | Principal amount | Amount of fees paid/ payable within the Reporting Year | Amount of interest paid/payable within the 2010 Interim Period (HK\$) |
|-----------------------|-------------------|------------------|--|---|
| Loan ¹ | 6 November 2008 | HK\$310 million | — | 2,926,000 |

¹HSBC was one of the lending banks and acted as the agent and security agent for the lending bank.

REIT Holdco, Partat, Keen Ocean, Full Estates, Moon King and Metrogold Development Ltd (“Metrogold”) have maintained interest bearing accounts with HSBC at arm’s length and on commercial terms for deposits during the Reporting Year.

Waiver from Strict Compliance

A waiver from strict compliance with the disclosure requirement and Unitholders’ approval under Chapter 8 of the REIT Code in respect of the above transactions with connected persons of the Trustee has been granted by the SFC on 8 December 2005 subject to specific caps on fees payable by GZI REIT for corporate finance services, review by the auditors for each relevant financial period, annual review by the Audit Committee and the INEDs and other terms and conditions. Details of the Waiver and its terms and conditions have been published in the Offering Circular.

Confirmation by the Audit Committee and the INEDs

The INEDs and the Audit Committee of the Manager confirm that they have reviewed the terms of all relevant connected party transactions including those connected party transactions with the Manager Group and the HSBC Group and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of GZI REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to or from GZI REIT than terms available from or to (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement and the Manager’s internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

Confirmation by the Manager and Trustee on corporate finance transaction with the HSBC Group

Both the Manager and the Trustee have confirmed that there is no corporate finance transaction nor other connected transaction (save for those disclosed above) with the HSBC Group during the 2010 Interim Period.

Manager’s Fees

During the 2010 Interim Period, the aggregate amount of fees payable by GZI REIT to the Manager under the Trust Deed was approximately RMB14,054,000.



Trustee's Fees

During the 2010 Interim Period, the aggregate amount of fees payable by GZI REIT to the Trustee under the Trust Deed was approximately RMB845,000.

Principal Valuer's Fees

During the 2010 Interim Period, the aggregate amount of fees payable by GZI REIT to the Principal Valuer was RMB229,000.

Interests held by the Manager and its Directors and Chief Executive Officer

The REIT Code requires that connected persons of GZI REIT shall disclose their interests in Units. In addition, under the provisions of Part XV of the SFO, the Trust Deed is also deemed to be applicable, among other things, to the Manager, the Directors and the Chief Executive of the Manager.

The interests and short positions held by Directors and Chief Executive Officer of the Manager in the Units required to be recorded in the register kept by the Manager under Schedule 3 of the Trust Deed are set out below:

Interests and Short Positions in the Units:

| Name of Director | Nature of Interest | As at 1 January 2010 | | As at 30 June 2010 | | % Change in Holdings |
|----------------------------------|--------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|----------------------|
| | | Beneficial interests in Units | Approximate % of interest | Beneficial interests in Units | Approximate % of interest | |
| Mr. Liang Ningguang ¹ | — | Nil | — | Nil | — | — |
| Mr. Liu Yongjie ² | — | Nil | — | Nil | — | — |
| Mr. Liang Youpan | — | Nil | — | Nil | — | — |
| Mr. Chan Chi On, Derek | — | Nil | — | Nil | — | — |
| Mr. Lee Kwan Hung, Eddie | — | Nil | — | Nil | — | — |
| Mr. Chan Chi Fai, Brian | — | Nil | — | Nil | — | — |

1 Mr. Liang is also a director of Yue Xiu and therefore Yue Xiu is deemed to be an associate of Mr. Liang under Rule 8.1 of the REIT Code. Accordingly, the holdings of Yue Xiu as disclosed in "Holdings of Significant Holders" are deemed to be the holdings of Mr. Liang.

2 Mr. Liu is also the Chief Executive Officer of the Manager.

Connected Party Transactions

HOLDINGS OF SIGNIFICANT HOLDERS

The following persons have interests or short position in the Units required to be recorded in the register kept by the Manager under Schedule 3 of the Trust Deed:

Long position in the Units:

| Name of Substantial Unitholder | Nature of Interest | As at 1 January 2010 | | As at 30 June 2010 | | % Change of interest |
|--|--------------------|----------------------|---------------------------|--------------------|---------------------------|----------------------|
| | | Interests in Units | Approximate % of interest | Interests in Units | Approximate % of interest | |
| Guangzhou Yue Xiu Holdings Limited (“GZYX”) | Deemed | — | — | 388,514,767 | 36.45% | 36.45% |
| | Total | — | — | 388,514,767 | 36.45% | 36.45% |
| Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”) | Beneficial | 27,320 | — | 27,320 | 0% | |
| | Deemed | 389,629,447 | 36.55% | 388,487,447 | 36.45% | (0.1%) |
| | Total | 389,656,767 | 36.55% | 388,514,767 | 36.45% | (0.1%) |
| YXP | Beneficial | — | — | — | — | |
| | Deemed | 379,253,182 | 35.58% | 379,253,182 | 35.58% | — |
| | Total | 379,253,182 | 35.58% | 379,253,182 | 35.58% | — |
| Dragon Yield Holdings Limited (“Dragon Yield”) | Beneficial | 379,253,182 | 35.58% | 379,253,182 | 35.58% | — |
| | Deemed | — | — | — | — | |
| | Total | 379,253,182 | 35.58% | 379,253,182 | 35.58% | — |

1. Further information in relation to interests of corporations controlled by GZYX:

| Name of Controlled Corporation | Name of Controlling Shareholder | % Control | Direct interest (Y/N) | Number of Shares | |
|----------------------------------|----------------------------------|-----------|-----------------------|------------------|----------------|
| | | | | Long Position | Short Position |
| Yue Xiu | GZYX | 100.00 | Y | 27,320 | — |
| | GZYX | 100.00 | N | 388,487,447 | — |
| Excellence Enterprises Co., Ltd. | Yue Xiu | 100.00 | N | 387,188,217 | — |
| Bosworth International Limited | Excellence Enterprises Co., Ltd. | 100.00 | N | 379,253,182 | — |
| Bosworth International Limited | Excellence Enterprises Co., Ltd. | 100.00 | Y | 5,698,282 | — |
| YXP | Bosworth International Limited | 34.06 | N | 379,253,182 | — |
| Dragon Yield | YXP | 100.00 | Y | 379,253,182 | — |
| Sun Peak Enterprises Ltd. | Excellence Enterprises Co., Ltd. | 100.00 | N | 1,414,207 | — |
| Novena Pacific Limited | Sun Peak Enterprises Ltd. | 100.00 | Y | 1,414,207 | — |
| Shine Wah Worldwide Limited | Excellence Enterprises Co., Ltd. | 100.00 | N | 395,122 | — |
| Morrison Pacific Limited | Shine Wah Worldwide Limited | 100.00 | Y | 395,122 | — |



| Name of Controlled Corporation | Name of Controlling Shareholder | % Control | Direct interest (Y/N) | Number of Shares | |
|------------------------------------|----------------------------------|-----------|-----------------------|------------------|----------------|
| | | | | Long Position | Short Position |
| Perfect Goal Development Co., Ltd. | Excellence Enterprises Co., Ltd | 100.00 | N | 339,342 | — |
| Greenwood Pacific Limited | Perfect Goal Development | 100.00 | Y | 339,342 | — |
| Seaport Development Limited | Excellence Enterprises Co., Ltd. | 100.00 | N | 88,082 | — |
| Goldstock International Limited | Seaport Development Limited | 100.00 | Y | 88,082 | — |
| Yue Xiu Finance Company Limited | Yue Xiu | 100.00 | Y | 1,299,230 | — |

2. The deemed interest in 379,253,182 Units were held through Dragon Yield, a 100% owned subsidiary.

Connected Party Transactions

HOLDINGS OF OTHER CONNECTED PERSONS

Senior Executives of the Manager

Interests in the Units held by senior executives of the Manager, being connected persons of GZI REIT, are set out below:

| Name of Senior Executive | Nature of interest | As at 1 January 2010 | | As at 30 June 2010 | | % Change of interest |
|--------------------------|-------------------------|----------------------|---------------------------|--------------------|---------------------------|----------------------|
| | | Interests in Units | Approximate % of interest | Interests in Units | Approximate % of interest | |
| Ms. Chen Huiqing | Personal ⁽¹⁾ | 510 | 0% | 510 | 0% | — |
| Mr. Ip Wing Wah | Personal | 1,900 | 0% | 1,900 | 0% | — |
| Ms. Ou Haijing | Personal | 1,000 | 0% | 1,000 | 0% | — |

(1) 255 units held by spouse

Save as disclosed above, the Manager is not aware of any connected persons of GZI REIT, including the Trustee and Vigers holding any Units as at 30 June 2010.

Unit Options

During the 2010 Interim Period, GZI REIT or any of its controlled entities was not a party to any arrangements enabling the Directors of the Manager (including, their spouses and children under 18 years of age) to benefit through acquiring the Units in GZI REIT or any fund units of other legal entities or any derivatives of equities.

Review Report of the Independent Auditor



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GZI REIT ASSET MANAGEMENT LIMITED (as the "MANAGER" of GZI REAL ESTATE INVESTMENT TRUST)

INTRODUCTION

We have been engaged by the Manager to review the interim financial information of GZI Real Estate Investment Trust ("GZI REIT") set out on pages 26 to 44, which comprises the condensed consolidated balance sheet of GZI REIT and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited requires the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Manager are responsible for the preparation and fair presentation of these interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 5 August 2010

Condensed Consolidated Interim Balance Sheet

As at 30 June 2010

| | Note | 30 June 2010 (Unaudited) RMB'000 | 31 December 2009 (Audited) RMB'000 |
|---|------|---|---|
| Non-current assets | | | |
| Machinery and tools | 4 | 2,011 | 3,230 |
| Investment properties | 5 | 5,220,000 | 5,082,000 |
| Deferred assets | 6 | 43,972 | 37,420 |
| Goodwill | 7 | 160,324 | 160,324 |
| | | <u>5,426,307</u> | <u>5,282,974</u> |
| Current assets | | | |
| Tax recoverable | | 1,568 | 1,453 |
| Prepayments, deposits and other receivables | 8 | 6,126 | 5,457 |
| Cash and cash equivalents | 9 | 372,490 | 361,266 |
| | | <u>380,184</u> | <u>368,176</u> |
| Total assets | | <u>5,806,491</u> | <u>5,651,150</u> |
| Current liabilities | | | |
| Rental deposits, current portion | 11 | 69,289 | 79,523 |
| Receipts in advance | 11 | 11,061 | 5,799 |
| Accruals and other payables | 11 | 57,273 | 46,919 |
| Due to related companies | 19 | 15,459 | 15,603 |
| | | <u>153,082</u> | <u>147,844</u> |
| Non-current liabilities, other than net assets attributable to unitholders | | | |
| Rental deposits, non-current portion | 11 | 38,452 | 26,861 |
| Bank borrowings, secured | 12 | 1,810,737 | 1,819,485 |
| Deferred tax liabilities | 10 | 69,759 | 70,111 |
| | | <u>1,918,948</u> | <u>1,916,457</u> |
| Total liabilities, other than net assets attributable to unitholders | | <u>2,072,030</u> | <u>2,064,301</u> |
| Net assets attributable to unitholders | 13 | <u>3,734,461</u> | <u>3,586,849</u> |
| Total liabilities | | <u>5,806,491</u> | <u>5,651,150</u> |
| Net assets | | <u>—</u> | <u>—</u> |

Condensed Consolidated Interim Balance Sheet

As at 30 June 2010

| | Note | 30 June 2010 (Unaudited) RMB'000 | 31 December 2009 (Audited) RMB'000 |
|---|------|---|---|
| Total equity | | — | — |
| Net current assets | | 227,102 | 220,332 |
| Total assets less current liabilities | | 5,653,409 | 5,503,306 |
| Units in issue ('000) | | 1,065,973 | 1,065,973 |
| Net assets attributable to unitholders per unit (RMB) | | 3.50 | 3.36 |

On behalf of the Board of Directors of
GZI REIT Asset Management Limited,
as the Manager of GZI REIT

Liang Ningguang
Director

Liu Yongjie
Director

The notes on pages 31 to 44 are an integral part of this condensed interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2010

| | Note | Unaudited | |
|--|------|--------------------------|----------|
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| Revenue - rental income | | 240,432 | 230,623 |
| Operating expenses | 14 | (91,219) | (82,704) |
| Operating profit | | 149,213 | 147,919 |
| Fair value gain on investment properties | | 135,467 | 3,023 |
| Interest income from bank deposits | | 1,182 | 934 |
| Finance costs - excluding amounts attributable to unitholders | 16 | (8,647) | (32,973) |
| Profit before tax and transactions with unitholders | | 277,215 | 118,903 |
| Income tax expenses | 17 | (3,980) | (4,796) |
| Profit after tax before transactions with unitholders | | 273,235 | 114,107 |
| Other comprehensive income | | | |
| - Cash flow hedges, net of tax | | — | — |
| Total comprehensive income for the period before transactions with unitholders | | 273,235 | 114,107 |
| Change in net assets attributable to unitholders | 13 | 273,235 | 114,107 |

Notes:

- (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 statement of comprehensive income. 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 statement of comprehensive income. Distributable income is determined in the Distribution Statement on page 29.
- (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 18.

The notes on pages 31 to 44 are an integral part of this condensed interim financial information.

Distribution Statement

For the six months ended 30 June 2010

| | Note | Unaudited | |
|--|------|--------------------------|------------|
| | | Six months ended 30 June | |
| | | 2010 | 2009 |
| | | RMB'000 | RMB'000 |
| Profit after tax before transactions with unitholders | | 273,235 | 114,107 |
| Adjustments for the total distributable income (i) | | | |
| - Fair value gain on investment properties | | (135,467) | (3,023) |
| - Deferred taxation credited to the statement of comprehensive income | | (352) | (495) |
| - Amortisation charges on investment properties under China Accounting Standards | | (5,115) | — |
| - Exchange gain on bank borrowings | | (16,803) | — |
| Total distributable income | | 115,498 | 110,589 |
| Distributable amount at 1 January | | 126,017 | 115,264 |
| Distribution paid during the period (ii) | 13 | (125,623) | (115,189) |
| Distributable amount at 30 June | | 115,892 | 110,664 |
| Interim distribution declared (iii) | | 115,871 | 110,410 |
| Distribution per unit, declared (iii) | | RMB 0.1087 | RMB 0.1036 |

Notes:

- (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 statement of comprehensive income for the relevant year or period.
- (ii) A distribution of RMB0.1178 per unit, totaling RMB125,623,027 (equivalent to HK\$143,160,144), was paid to unitholders on 19 May 2010.
- (iii) An interim distribution in respect of six months ended 30 June 2010 of RMB0.1087 (equivalent to HK\$0.1246) per unit, totaling RMB115,871,000 (equivalent to HK\$132,819,000) was declared by the Board of the Manager on 5 August 2010.

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2010

| | Unaudited | |
|---|--------------------------|------------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Cash flows from operating activities | | |
| Cash generated from operations | 160,041 | 142,133 |
| Interest paid | (17,396) | (25,608) |
| China enterprise income tax paid | (4,447) | (5,665) |
| | <u>138,198</u> | <u>110,860</u> |
| Net cash generated from operating activities | 138,198 | 110,860 |
| Cash flows from investing activities | | |
| Additions of investment properties | (2,533) | (4,486) |
| Interest received | 1,182 | 934 |
| | <u>(1,351)</u> | <u>(3,552)</u> |
| Net cash used in investing activities | (1,351) | (3,552) |
| Cash flows from financing activities | | |
| Distribution paid | (125,623) | (115,189) |
| | <u>(125,623)</u> | <u>(115,189)</u> |
| Net cash used in financing activities | (125,623) | (115,189) |
| Net increase/(decrease) in cash and cash equivalents | 11,224 | (7,881) |
| Cash and cash equivalents at beginning of the period | 361,266 | 350,481 |
| | <u>372,490</u> | <u>342,600</u> |
| Cash and cash equivalents at end of the period | 372,490 | 342,600 |

The notes on pages 31 to 44 are an integral part of this condensed interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 GENERAL INFORMATION

GZI Real Estate Investment Trust (“GZI REIT”) and its subsidiaries (together, 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 (as amended by the Supplemental Deed dated 25 March 2008) 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 was listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Manager on 5 August 2010.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six-month period ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard 34, ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

During the period ended 30 June 2010, the Group has changed its presentation currency of its financial statements from Hong Kong dollar to RMB. The Board considers the change will result in a more appropriate presentation of the Group’s operations and transactions in the financial statements. The comparative figures in this condensed consolidated interim financial information have been arrived at using the closing rates for balance sheet items and average rates for the year under review for statement of comprehensive income items. As a result, the comparative figures have been restated and there is no significant impact on the financial position as at 31 December 2009 and 30 June 2010 and results and cash flows of the Group for the periods ended 30 June 2009 and 2010.

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

| | |
|---------------------|--|
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 39 (Amendment) | Eligible hedge items |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards |
| HKFRS 1 (Amendment) | Additional exemptions for first-time adopters |
| HKFRS 3 (Revised) | Business Combination (and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures') |
| HK(IFRIC)-Int 17 | Distribution of non-cash assets to owners |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers |

The following new standards, amendments to standards and interpretations have been issued but are not effective and have not been early adopted. The directors of the Manager anticipate that the adoption of these standards, amendments to standards and interpretations would not result in a significant impact on the results and financial position of the Group.

| | |
|--------------------------------|---|
| HKAS 32 (Amendments) | Classification of right issues ¹ |
| HK(IFRIC)-Int 19 | Extinguishing financial liabilities with equity instruments ² |
| Amendment to HKFRS 1 | Limited exemption from comparative HKFRS 7 disclosures for first time adopters ² |
| HKAS 24 (Revised) | Related party disclosures ³ |
| Amendments to HK(IFRIC)-Int 14 | Prepayment of a minimum funding requirement ³ |
| HKFRS 9 | Financial instruments ⁴ |

¹ effective for annual periods beginning on or after 1 February 2010

² effective for annual periods beginning on or after 1 July 2010

³ effective for annual periods beginning on or after 1 January 2011

⁴ effective for annual periods beginning on or after 1 January 2013

In addition, HKICPA also published a number of amendments for the existing standards under its annual improvement project. These amendments are not expected to have a significant financial impact on the results and financial position of the Group. The Group will adopt the above new standards, amendments to standards and interpretations when they become effective.

Notes to the Condensed Consolidated Interim Financial Information

4 MACHINERY AND TOOLS

| | Unaudited RMB'000 |
|--|------------------------------|
| Six months ended 30 June 2009 | |
| Opening net book amount as at 1 January 2009 | 5,690 |
| Depreciation | (1,219) |
| | <u>4,471</u> |
| Closing net book amount as at 30 June 2009 | <u>4,471</u> |
| Six months ended 30 June 2010 | |
| Opening net book amount as at 1 January 2010 | 3,230 |
| Depreciation | (1,219) |
| | <u>2,011</u> |
| Closing net book amount as at 30 June 2010 | <u>2,011</u> |

5 INVESTMENT PROPERTIES

| | Unaudited Six months ended 30 June | |
|-------------------------|---|------------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Beginning of the period | 5,082,000 | 5,043,491 |
| Additions | 2,533 | 4,486 |
| Fair value gain | 135,467 | 3,023 |
| | <u>5,220,000</u> | <u>5,051,000</u> |
| End of the period | <u>5,220,000</u> | <u>5,051,000</u> |

The investment properties are located in China and held on land use rights of 40 years to 50 years, expiring in 2045 through 2055.

The investment properties were revalued at 30 June 2010 by Vigers Appraisal and Consulting Limited, independent professional valuers. Valuations were performed using discounted cash flow projections based on estimates of future cash flows, derived from the terms of any existing lease and other contracts, and from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

In the condensed consolidated interim statement of comprehensive income, direct operating expenses include RMB230,571 (2009: RMB505,000) relating to investment properties that were vacant.

As at 30 June 2010, certain investment properties were pledged as collateral for the Group's bank borrowings (Note 12).

Notes to the Condensed Consolidated Interim Financial Information

6 DEFERRED ASSETS

Rental income is recognised on an accrual basis by averaging out the impact of rent-free periods, contracted rental escalations and such other terms affecting the cash received from rental income under each tenancy agreement. Thus, rental income is recognised on a straight-line basis for the entire lease term of each tenancy agreement, which effectively amortises the impact of rent-free periods, contracted rental escalations and other relevant terms on the rental income over the relevant tenancy periods. The temporary difference between the cash received from rental income as set out in the tenancy agreements and accounting monthly rental income is reflected as deferred assets. The deferred assets are denominated in RMB.

7 GOODWILL

| | Unaudited Six months ended 30 June | |
|------------------------|---------------------------------------|-----------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Net book amount | <u>160,324</u> | <u>160,324</u> |
| Cost | 160,324 | 160,324 |
| Accumulated impairment | <u>—</u> | <u>—</u> |
| | <u>160,324</u> | <u>160,324</u> |

Impairment test for goodwill

For the purpose of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets.

Key assumptions used for in the cash flow projections are as follows:

| | |
|---------------|-------|
| Growth rate | 4% |
| Discount rate | 7.33% |

These assumptions have been used for the analysis of the cash-generating units ("CGU"). Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Management estimates the discount rate using pre-tax rates that reflect market assessments of the time value of money and the specific risks relating to the CGU. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

Notes to the Condensed Consolidated Interim Financial Information

8 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

All prepayments, deposits and other receivables are denominated in RMB.

9 CASH AND CASH EQUIVALENTS

As at 30 June 2010, included in the cash and cash equivalents of the Group are bank deposits of approximately RMB256,329,000 (31 December 2009: RMB207,236,000) denominated in Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China. The remittance of these funds out of China is subject to exchange control restrictions imposed by the Chinese government.

The remaining balances of cash and cash equivalents are denominated in Hong Kong dollar and United States dollar.

10 DEFERRED TAX LIABILITIES

| | Unaudited | Audited |
|--|----------------------|---------------|
| | 30 June | 31 December |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Deferred tax liabilities: | | |
| – Deferred tax liabilities to be recovered after more than 12 months | <u>69,759</u> | <u>70,111</u> |

Notes to the Condensed Consolidated Interim Financial Information

10 DEFERRED TAX LIABILITIES (Continued)

The movements in deferred tax liabilities during the period are as follows:

| | Fair value gains RMB'000 | Others RMB'000 | Withholding tax in respect of unremitted earnings of a subsidiary RMB'000 | Total RMB'000 |
|--|--------------------------------|-------------------|--|------------------|
| Six months ended 30 June 2009 | | | | |
| At 1 January 2009 | 60,219 | 6,514 | 1,241 | 67,974 |
| (Credited)/charged to the statement of comprehensive income (Note 17) | (3,124) | 1,386 | 1,243 | (495) |
| At 30 June 2009 | <u>57,095</u> | <u>7,900</u> | <u>2,484</u> | <u>67,479</u> |
| Six months ended 30 June 2010 | | | | |
| At 1 January 2010 | 57,141 | 9,095 | 3,875 | 70,111 |
| (Credited)/charged to the statement of comprehensive income (Note 17) | (2,619) | 1,031 | 1,236 | (352) |
| At 30 June 2010 | <u>54,522</u> | <u>10,126</u> | <u>5,111</u> | <u>69,759</u> |

There is no material unprovided deferred taxation as at 30 June 2010.

Notes to the Condensed Consolidated Interim Financial Information

11 RENTAL DEPOSITS, RECEIPTS IN ADVANCE AND ACCRUALS AND OTHER PAYABLES

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|---|---|---|
| Rental deposits | | |
| Current portion | 69,289 | 79,523 |
| Non-current portion | 38,452 | 26,861 |
| | <u>107,741</u> | <u>106,384</u> |
| Receipts in advance | 11,061 | 5,799 |
| Provision for withholding tax payable | 7,778 | 7,404 |
| Provision for business tax and flood prevention fee | 5,176 | 4,695 |
| Construction fee payables | 4,882 | 6,606 |
| Accruals for operating expenses | 39,437 | 28,214 |
| Accruals and other payables | <u>57,273</u> | <u>46,919</u> |
| | <u>176,075</u> | <u>159,102</u> |

The carrying amounts of rental deposits, receipts in advance and other payables approximate their fair values.

Majority of the rental deposits, receipts in advance and other payables are denominated in RMB.

Notes to the Condensed Consolidated Interim Financial Information

12 BANK BORROWINGS, SECURED

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|-------------|---|---|
| Non-current | <u><u>1,810,737</u></u> | <u><u>1,819,485</u></u> |

Bank borrowings are denominated in Hong Kong dollar and secured by investment properties of Partat Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited amounting to RMB4,562,630,000.

The maturity of borrowings at the balance sheet date is as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|------------------|---|---|
| More than 1 year | <u><u>1,810,737</u></u> | <u><u>1,819,485</u></u> |

The effective interest rate of the bank borrowings at the balance sheet date was 1.95% (31 December 2009: 1.90%) per annum. The carrying amounts of the borrowings approximate their fair values.

The Group has no undrawn borrowing facilities as at 30 June 2010 (31 December 2009: Nil).

13 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

| | Unaudited Six months ended 30 June | |
|---|---|-------------------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Beginning of the period | 3,586,849 | 3,547,263 |
| Transfer from statement of comprehensive income | 273,235 | 114,107 |
| Distribution paid during the period | (125,623) | (115,189) |
| End of the period | <u><u>3,734,461</u></u> | <u><u>3,546,181</u></u> |

Notes to the Condensed Consolidated Interim Financial Information

14 EXPENSES BY NATURE

| | Unaudited | |
|---|--------------------------|-------------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | RMB'000 | RMB'000 |
| Property management fee (i) | 8,292 | 7,834 |
| Urban real estate tax | 28,568 | 24,041 |
| Business tax and flood prevention fee | 12,195 | 11,587 |
| Withholding tax (ii) | 21,606 | 20,488 |
| Depreciation of property, plant and equipment | 1,219 | 1,219 |
| Asset management fee | 14,054 | 14,162 |
| Trustee's remuneration | 845 | 840 |
| Valuation fee | 229 | 123 |
| Legal and professional fee | 472 | 474 |
| Auditor's remuneration | 790 | 793 |
| Bank charges | 53 | 61 |
| Others | 2,896 | 1,082 |
| | <u> </u> | <u> </u> |
| Total operating expenses | <u>91,219</u> | <u>82,704</u> |

Notes:

- (i) The Group received leasing, marketing and tenancy management services from two leasing agents, namely, Guangzhou Yicheng Property Management Ltd. and Guangzhou White Horse Property Management Co. Ltd (Note 19).
- (ii) Withholding tax on the rental income and interest income in China is calculated based on the rental income and interest income at a rate of 10 per cent.

15 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.

Notes to the Condensed Consolidated Interim Financial Information

16 FINANCE COSTS

| | Unaudited Six months ended 30 June | |
|--|---------------------------------------|-----------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Interest expense for bank borrowings | 17,396 | 25,608 |
| Loan transaction costs for bank borrowings | 8,054 | 8,059 |
| Net foreign exchange gains | (16,803) | (694) |
| | <u>8,647</u> | <u>32,973</u> |

17 INCOME TAX EXPENSES

Since a subsidiary carries out its operation through a sino-foreign co-operative joint venture in China, it is subject to corporate income tax at a rate of 25% (30 June 2009: 25%).

For other subsidiaries with operations in China, the corporate income tax was paid by way of withholding tax as disclosed in Note 14(ii).

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

| | Unaudited Six months ended 30 June | |
|------------------------------------|---------------------------------------|-----------------|
| | 2010 RMB'000 | 2009 RMB'000 |
| Current income tax | | |
| – Hong Kong profits tax | — | — |
| – China enterprise income taxation | 4,332 | 5,291 |
| Deferred income tax (Note 10) | (352) | (495) |
| | <u>3,980</u> | <u>4,796</u> |

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period ended 30 June 2010 is 25% (the estimated tax rate for the six months ended 30 June 2009 was 25%).

Notes to the Condensed Consolidated Interim Financial Information

18 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 2010 is approximately RMB0.2563 (June 2009: RMB0.107). The calculation of earnings per unit is based on profit after tax before transactions with unitholders of approximately RMB273,235,000 (June 2009: RMB114,107,000) and on average units in issue of 1,065,973,000 units (June 2009: 1,065,973,000 units) during the period.

Diluted earnings per unit is not presented as there is no dilutive instrument for the six months ended 30 June 2010.

19 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

As at 30 June 2010, the Group was significantly influenced by Yuexiu Property Company Limited (incorporated in Hong Kong), which owns approximately 36% of GZI REIT's units. The remaining approximately 64% of the units are widely held.

The table set forth below summarized the names of significant parties and nature of relationship with GZI REIT as at 30 June 2010:

| Connected party | Relationship with GZI REIT |
|--|----------------------------------|
| Yuexiu Property Company Limited ("YXP") ¹ | A major unitholder of GZI REIT |
| GZI REIT Asset Management Limited (the "Manager") ¹ | A subsidiary of YXP |
| Guangzhou Yicheng Property Management Ltd. ("Yicheng") ¹ | A subsidiary of YXP |
| Guangzhou White Horse Clothings Market Ltd ("White Horse JV") ¹ | A subsidiary of YXP |
| Guangzhou White Horse Property Management Co. Ltd ("White Horse PM") ¹ | A subsidiary of YXP |
| Guangzhou City Construction & Development Xingye Property Agent Ltd. ("GCCD Xingye Property Agent") ¹ | A subsidiary of YXP |
| Guangzhou City Construction and Development Hongcheng Car Park Properties Management Co. Ltd. ("Hongcheng") ¹ | A subsidiary of YXP |
| Guangzhou City Construction & Development Co. Ltd. ("GCCD") ¹ | A subsidiary of YXP |
| Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu") ¹ | A major shareholder of YXP |
| HSBC Institutional Trust Services (Asia) Limited (the "Trustee") | The trustee of GZI REIT |
| Vigers Appraisal & Consulting Limited (the "Valuer") | The principal valuer of GZI REIT |
| The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries (the "HSBC Group") | Related parties of the Trustee |

¹ These connected parties are also considered as related parties of the Group, transactions and balances carried out with these related parties are disclosed in notes (a) and (b) below.

Notes to the Condensed Consolidated Interim Financial Information

19 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Transactions with connected parties/related parties

The following transactions were carried out with connected parties/related parties:

| | Unaudited | |
|---|--------------------------|-----------------|
| | Six months ended 30 June | |
| | 2010 RMB'000 | 2009 RMB'000 |
| Asset management fee paid/payable to the Manager (ii) | (14,054) | (14,162) |
| Management fee paid/payable to Yicheng | (4,168) | (3,881) |
| Management fee paid/payable to White Horse PM | (4,124) | (3,953) |
| Rental income received/receivable from GCCD Xingye Property Agent | 491 | 487 |
| Rental income received/receivable from YXP | 602 | 604 |
| Rental income received/receivable from Yue Xiu | 29 | 26 |
| Rental income received/receivable from Yicheng | 3 | 3 |
| Rental income received/receivable from White Horse JV | 586 | — |
| Rental income received/receivable from Hongcheng | — | 495 |
| Rental income received/receivable from GCCD | 294 | — |
| Trustee fee paid/payable to the Trustee | (845) | (840) |
| Valuation fee paid/payable to the Valuer | (229) | (123) |
| Transactions with the HSBC Group | | |
| – Interest expense paid/payable to the HSBC Group | (2,568) | (4,867) |
| – Rental income received/receivable from the HSBC Group | 5,676 | 5,675 |
| – Interest income from the HSBC Group | 12 | 38 |
| | <u>12</u> | <u>38</u> |

Notes:

- (i) All transactions with connected parties/related parties were carried out in accordance with the terms of the relevant agreement governing the transactions.
- (ii) The asset management fee is calculated as the aggregate of a base fee of 0.3% per annum of the value of the Deposited Property, as defined in the Trust Deed and a service fee of 3% per annum of Net Property Income, as defined in the Trust Deed.

Notes to the Condensed Consolidated Interim Financial Information

19 CONNECTED PARTY TRANSACTIONS AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances with related parties

The following balances were carried out with related parties:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|------------------------------|---|---|
| Balance with Yicheng | | |
| Amount due to Yicheng | (680) | (690) |
| Balance with White Horse PM | | |
| Amount due to White Horse PM | (808) | (658) |
| Balance with the Manager | | |
| Amount due to the Manager | <u>(13,971)</u> | <u>(14,255)</u> |

All balances with related parties are unsecured, interest-free and repayable on demand.

(c) Key management compensation

There was no key management compensation for the period ended 30 June 2010 (31 December 2009: Nil).

20 CAPITAL COMMITMENTS

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|---|---|---|
| Capital commitments in respect of investment properties, contracted but not provided for | <u>2,989</u> | <u>3,589</u> |

Notes to the Condensed Consolidated Interim Financial Information

21 FUTURE MINIMUM RENTAL RECEIVABLES

At 30 June 2010, the Group had future minimum rental receivables under non-cancellable leases as follows:

| | Unaudited 30 June 2010 RMB'000 | Audited 31 December 2009 RMB'000 |
|---|---|---|
| Not later than one year | 329,538 | 327,602 |
| Later than one year and not later than five years | 472,821 | 232,364 |
| Later than five years | 15,744 | 22,130 |
| | 818,103 | 582,096 |

Performance Table

| | 30 June 2010 | 30 June 2009 |
|---|----------------------------|---------------------|
| Net assets attributable to unitholders (RMB) | 3,734,000,000 | 3,587,000,000 |
| Net assets attributable to unitholders per unit (RMB) | 3.50 | 3.36 |
| Equivalent to HK\$ | 4.01 | 3.77 |
| The highest premium of the traded price to net asset value (i) | — | — |
| The highest discount of the traded price to net asset value (i) | HK\$1.07 | HK\$2.14 |
| Net yield per unit (ii) | 8.88% | 4.81% |
| Number of units in issue | 1,065,972,687 units | 1,065,972,687 units |

Note:

- (i) The highest premium is calculated based on the highest traded price of HK\$3.57 (2009: HK\$2.67) on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the period from 1 January 2010 to 30 June 2010. The highest discount is calculated based on the lowest traded price of HK\$2.94 (2009: HK\$1.63) on the Stock Exchange during the period from 1 January 2010 to 30 June 2010. Since the highest traded price during the six months ended 30 June 2010 was HK\$3.57, which was lower than the net asset value as at 30 June 2010, no premium of the traded price to net asset value was presented for 30 June 2010.
- (ii) Net yield per unit is calculated based on profit after tax before transactions with Unitholders per unit for the period from 1 January 2010 to 30 June 2010 over the traded price on the Stock Exchange of HK\$3.29 (2009: HK\$2.52) as at 30 June 2010.

Corporate and Investor Relations Information

BOARD OF DIRECTORS OF THE MANAGER

Executive directors

Mr Liang Ningguang (*Chairman*)

Mr Liu Yongjie

Non-executive director

Mr Liang Youpan

Independent non-executive directors & audit committee members

Mr Chan Chi On, Derek

Mr Lee Kwan Hung, Eddie

Mr Chan Chi Fai, Brian

Responsible Officers of the Manager

Mr Liang Ningguang

Mr Liu Yongjie

COMPANY SECRETARY OF THE MANAGER

Mr Yu Tat Fung

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

AUDITOR OF GZI REIT

PricewaterhouseCoopers

Certified Public Accountants

Corporate and Investor Relations Information

PRINCIPAL VALUER

Vigers Appraisal and Consulting Ltd.

HONG KONG LEGAL ADVISOR

Baker & McKenzie

PRINCIPAL BANKERS OF GZI REIT

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank, Limited
The Bank of East Asia, Limited
Industrial and Commercial Bank of China (Asia) Limited
Nanyang Commercial Bank, Limited
DBS Bank Ltd, Hong Kong Branch
Dah Sing Bank, Limited

WEBSITES TO ACCESS INFORMATION IN RELATION TO GZI REIT

<http://www.gzireit.com.hk>

<http://www.hkex.com.hk>

REGISTERED OFFICE OF THE MANAGER

24th Floor
Yue Xiu Building
160 Lockhart Road
Wanchai, Hong Kong

UNIT REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East, Wanchai, Hong Kong

Corporate and Investor Relations Information

UNIT LISTING

GZI REIT's Units are listed on:
The Stock Exchange of Hong Kong Limited

The stock code is: 405

INVESTOR RELATIONS

For further information about
GZI REIT, please contact:

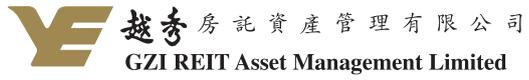
Mr Ha Hang Leung, Alan

Telephone: (852) 2593 2385

Facsimile: (852) 2519 6473

Email: alan@gzireit.com.hk

MANAGER



24/F., Yue Xiu Building,
160 Lockhart Road, Wanchai, Hong Kong
香港灣仔駱克道160號越秀大廈24樓

TEL 電話 (852)36071982

FAX 傳真 (852)25196473