

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and the selected financial and operating information set forth below should be read in conjunction with the Audited Financial Statements of the Properties and Audited Financial Statements of the BVI Companies in Appendices I and II to this Offering Circular respectively, which have been prepared in accordance with HKFRS.

Renminbi amounts herein have been translated into Hong Kong dollars based on the exchange rate of RMB1.07 = HK\$1.00, which was the exchange rate applied in the Audited Financial Statements of the Properties for each of FY2003 and FY2004 as well as each of the six months ended 30 June 2004 and 30 June 2005. A different exchange rate of RMB1.04 = HK\$1.00 was applied in the Audited Financial Statements of the BVI Companies. However, such translations should not be construed as representations that such Renminbi amounts have been, could have been or could be converted into Hong Kong dollars at that or any other rate.

Introduction

For the purposes of the Global Offering, the Manager has prepared the Audited Financial Statements of the Properties to present the results of the operations of the Properties for each of FY2003 and FY2004 as well as each of the six months ended 30 June 2004 and 30 June 2005.

As GZI's acquisition of the Properties (see the section headed "The Properties and Business — Past Transactions of the Properties" in this Offering Circular) was only completed in December 2002, only 11 days of financial records for 2002 are available to the Manager. While the Audited Financial Statements of the Properties present the results of the operations of the Properties in December 2002, these results have not been included in the following discussion because they cannot be meaningfully discussed.

Moon King, Full Estates and Keen Ocean became the beneficial owners of the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units on 1 September 2005. Partat became the beneficial owner of the White Horse Units on 19 October 2005. (See the section headed "The Properties and Business — Past Transactions of the Properties" in this Offering Circular.) Since the financial results of the BVI Companies only represent operations of at most two months, no meaningful discussion and analysis can be presented herein.

The method of managing the Properties under GZI REIT has been designed to comply with the REIT Code and to meet general expectations in respect of a real estate investment trust's property and financial management processes. Following the transfer of the Properties to GZI REIT, the management structure and the cost and capital structures of the Properties as well as the management philosophy and operational processes of the Manager are expected to differ from those previously adopted with respect to the Properties. These variations are expected to affect the future financial results of GZI REIT (see the sections headed "Manager's Discussion of Future Operations" and "Profit Forecast" in this Offering Circular).

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The Audited Financial Statements of the Properties and the Audited Financial Statements of the BVI Companies as well as the discussion and analysis of financial condition and results of operations are set out herein for the purpose of providing investors with an indication of the past performance of the Properties while owned and managed by the GZI Group. As the Properties were not operated as a single standalone entity in the past, the Audited Financial Statements of the Properties and the Audited Financial Statements of the BVI Companies may not give a true picture of the performance of the Properties as if they had been operated on a standalone basis. In addition, this information should not be relied upon as an indication of the future performance of the Properties when operated under the Manager.

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The Properties

As at 30 September 2005, the Properties comprised 70,992.5 sq.m. of Gross Rentable Area used as office/warehouse space and 88,030.6 sq.m. of Gross Rentable Area used for wholesale or retail activities.

Turnover Trends

The following table sets out information on the leased Gross Rentable Area, Gross Turnover and Operating Income/(Loss) derived from each of the Properties as at and for the years ended 31 December 2003 and 31 December 2004 as well as Gross Turnover per square metre for the months ended 31 December 2003 and 2004:

Property	Leased Gross Rentable Area as at 31 December		Gross Turnover				Operating Income/(Loss)		Gross Turnover per sq.m. for the month ended 31 December ⁽⁴⁾	
	2003 (sq.m.)	2004 (sq.m.)	FY2003 (HK\$'000)	FY2004 (HK\$'000)	FY2003 (HK\$'000)	FY2004 (HK\$'000)	2003 (HK\$)	2004 (HK\$)		
White Horse Units	46,875.9	48,906.3 ⁽¹⁾	89,754	104,737	69,112	77,500	159.6	178.5		
Fortune Plaza Units	1,751.9	16,872.0	150 ⁽²⁾	9,042	(1,653)	1,969	72.1	103.7		
City Development Plaza Units	37,643.8	37,890.1	31,911	33,904	28,128	29,635	77.1	75.3		
Victory Plaza Units	19,059.7	19,046.4	7,580 ⁽³⁾	24,397	2,536	18,648	100.5	103.0		
Total	105,331.3	122,714.8	129,395	172,080	98,123	127,752				

Notes:

- (1) The increase in the leased Gross Rentable Area was mainly attributable to the enhanced efficiency in usage of the area arising from the reformatting of the floor space subsequent to the expiration and termination of two head leases. The reformatting of the area to smaller leaseable units allowed the inclusion of previously unallocated common area on the respective floors to the Gross Rentable Area.
- (2) The first tenancy in the Fortune Plaza Units only commenced in September 2003. Accordingly, Gross Turnover for 2003 is based on the four months from September 2003 to December 2003.
- (3) The first tenancy in the Victory Plaza Units only commenced in August 2003. Accordingly, Gross Turnover for 2003 is based on the five months from August 2003 to December 2003.
- (4) In view of the change in leased Gross Rentable Area over the periods set out in the table above and the commencement of certain leases only in the second half of 2003, Gross Turnover per square metre has not been calculated on a semi-annual or annual basis. Instead the Gross Turnover per square metre is computed as the Gross Turnover of the month and divided by the leased Gross Rentable Area as of the end of the month.

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The following table sets out information on the leased Gross Rentable Area, Gross Turnover and Operating Income/(Loss) derived from each of the Properties as at and for the six months ended 30 June 2004 and 30 June 2005 as well as Gross Turnover per square metre for the months ended 30 June 2004 and 2005:

Property	Leased Gross Rentable Area as at 30 June		Gross Turnover for the six months ended 30 June		Operating Income/(Loss) for the six months ended 30 June		Gross Turnover per sq.m. for the month ended 30 June ⁽¹⁾	
	2004 (sq.m.)	2005 (sq.m.)	(Unaudited) 2004 (HK\$'000)	(Unaudited) 2005 (HK\$'000)	(Unaudited) 2004 (HK\$'000)	(Unaudited) 2005 (HK\$'000)	2004 (HK\$)	2005 (HK\$)
White Horse Units	48,426.4	48,442.5	48,112	65,916	37,623	55,251	165.6	226.8
Fortune Plaza Units	6,865.5	28,967.4	1,917	13,334	(348)	7,889	88.7	89.2
City Development Plaza Units	38,313.0	38,998.1	17,084	17,499	15,125	14,127	74.6	76.5
Victory Plaza Units	17,155.6	26,470.6	12,497	12,846	10,355	8,698	93.6	109.0
Total	110,760.5	142,878.6	79,610	109,595	62,755	85,965		

Note:

(1) In view of the change in leased Gross Rentable Area over the periods set out in the table above, Gross Turnover per square metre has not been calculated on a semi-annual or annual basis. Instead, the Gross Turnover per square metre is computed as the Gross Turnover of the month divided by the leased Gross Rentable Area at the end of the month.

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Occupancy Trends

The following table sets out information on the average occupancy rates of the Properties for FY2003, FY2004, the nine months ended 30 September 2005 and each of the six months ended 30 June 2004 and 30 June 2005, as well as the occupancy rates as at 30 September 2005:

Property	FY2003	Six months ended 30 June 2004	FY2004	Six months ended 30 June 2005	Nine months ended 30 September 2005	As at 30 September 2005
	(%)	(%)	(%)	(%)	(%)	(%)
White Horse Units						
— Wholesale/retail	100.0	100.0	100.0	100.0	100.0	100.0
— Office/warehouse	100.0	100.0	100.0	100.0	100.0	100.0
Combined	100.0	100.0	100.0	100.0	100.0	100.0
Fortune Plaza Units						
— Retail	n.m. ⁽¹⁾	0.0	17.9	100.0	90.5	14.9 ⁽²⁾
— Office	n.m. ⁽¹⁾	10.5	21.3	55.7	63.3	83.5
Combined	n.m. ⁽¹⁾	9.5	21.0	60.0	65.9	76.9
City Development Plaza Units						
— Retail	83.6	86.0	85.8	85.5	85.5	85.5
— Office	83.6	91.2	90.8	90.6	91.6	93.0
Combined	83.6	89.8	89.4	89.2	89.9	91.0
Victory Plaza Units						
— Retail	n.m. ⁽³⁾	87.1	81.8	77.7	85.2	100.0
Weighted average across the Properties⁽⁴⁾						
— Wholesale/retail	n.m.	89.8	88.9	91.2	93.1	94.3
— Office/warehouse	n.m.	50.2	55.6	73.2	77.5	88.5
	n.m.	72.1	74.0	83.2	86.1	91.7

Notes:

- (1) The first tenancy in the Fortune Plaza Units only commenced in September 2003.
- (2) The occupancy rate as at 30 September 2005 was lower than the average occupancy rate for the nine months ended 30 September 2005 due to the early termination of a large lease in September 2005. As at 31 October 2005, the occupancy rate was 82.0% due to two tenants taking up part of the vacated space.
- (3) The first tenancy in the Victory Plaza Units only commenced in August 2003.
- (4) Weighted based on the Gross Rentable Area of each of the Properties.

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AUDITED FINANCIAL STATEMENTS OF THE PROPERTIES

Key Items in the Combined Income Statements

Gross Turnover

As per the accounting policy in relation to the Properties, Rental Income recorded in the Audited Financial Statements of the Properties is recognised on an accrual basis by averaging out the impact of rent-free periods, contracted rental escalations and discounts, and such other terms affecting the monthly cash received from Rental Income under each tenancy agreement. Thus, a fixed average monthly Rental Income is recognised for the entire lease term of each tenancy agreement, which effectively amortises the impact of rent-free periods, contracted rental escalations and discounts, and other relevant lease terms on the Rental Income over the relevant lease periods. The temporary difference in cash income and accounting income is reflected as deferred assets, being the Rental Income recognised but not yet received in cash.

The Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units were transferred to the relevant BVI Companies between 10 September 2004 and 8 August 2005 but at the agreement of the parties the risks and rewards in relation to the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units were only passed to the relevant BVI Companies on 1 September 2005. The relevant parties agreed that the deferred assets originally recorded in the accounts of the transferor would not be transferred to the transferee of the GCCD Properties.

There was no change in accounting policy for the GCCD Properties. However, due to the fact that the tenancy agreements for the GCCD Properties were originally scheduled to expire beyond 1 September 2005, this post balance sheet event resulted in an accelerated amortisation of the deferred assets which significantly reduced the Rental Income and Operating Income for the GCCD Properties by HK\$17.0 million (HK\$3.0 million for the Fortune Plaza Units, HK\$4.5 million for City Development Plaza Units and HK\$9.5 million for the Victory Plaza Units) for the six months ended 30 June 2005. As there was no such non-recurring event for the two years ended 31 December 2004, in order to present the Rental Income and Operating Income of the GCCD Properties on a comparable basis, the discussion of Rental Income and Operating Income of the GCCD Properties for the six months ended 30 June 2005 in this section has excluded this accelerated amortisation of deferred assets.

Following the transfer of the Properties, the same accounting policy continued to be in effect. The Rental Income of the BVI Companies will be recognised after considering rental escalations or discounts and such other terms affecting the future income.

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White Horse Units

Historically, rent and property management fees were paid in an undivided amount by the tenants in the White Horse Units to White Horse Property Management Company under their leases. Leases in the White Horse Units were signed by White Horse Property Management Company and, during the relevant periods, were typically for terms of three years. Such leases generally provided for annual rental revisions, subject to negotiation with the tenants, of up to 5.0% per annum in the second year of the lease term and up to 8.0% per annum in the third year of the lease term. Leases with terms of less than three years generally provided for a fixed monthly rent payable for the entire term of the lease. Rental rates for the White Horse Units are subject to review and renegotiation on renewal of the leases.

Gross Turnover in relation to the White Horse Units included property management fees paid by the tenants to White Horse Property Management Company.

The GCCD Properties

Rental Income consisted of rent paid by tenants in each of the GCCD Properties under their leases. Depending on factors such as the needs of tenants as well as how established and reputable a particular property is, the terms of such tenancy agreements generally ranged from one to three years.

The leases in the Fortune Plaza Units and the City Development Plaza Units did not offer any rental discounts during the relevant periods. Instead, more than 50.0% of the leases in the City Development Plaza Units included annual rent escalation provisions of between 5.0% and 8.0%. Rental rates for these three Properties are subject to review and renegotiation on renewal of the leases.

In the case of the Victory Plaza Units, most tenants enjoyed a rental discount for the first two years of their leases. Initial discounts of 30.0% were granted when the Victory Plaza Units commenced operations in the second half of 2003 to induce potential tenants to take up space in the Property. In the second half of 2004, due to commencement of the construction of the two office towers above the Victory Plaza podium, most of the tenants were offered a further discount of 20.0% for the period up to the completion of the construction (expected to be end of 2007). Three long term tenants were granted this 20.0% discount for an additional extension of three or four months following the completion of such works. These three tenants accounted for 24.8% of the Rental Income of the Victory Plaza Units in FY2004.

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Other gains — net

White Horse Units

For the White Horse Units, other gains — net consisted of the following items:

- *Consultancy fees:* Consultancy fees comprised fees charged by White Horse Property Management Company to third parties as well as to tenants for the provision of consultation services in relation to matters such as the operation of a garment market in Chengdu, for instance, and the organisation of garment fairs and exhibitions for tenants and third parties. The Manager understands that White Horse Property Management Company will continue to provide such services. However, GZI REIT will not enjoy such income as it does not provide these services;
- *Labour charges:* Labour charges consisted of the income derived by White Horse Property Management Company from the provision of additional or overtime labour, either at the request of tenants for urgent renovation works at the tenant's unit or in conjunction with the provision of courier and transportation arrangement services for customers in the Property. The Manager understands that White Horse Property Management Company will continue to provide such services. However, GZI REIT will not enjoy such income as it does not provide such services;
- *Surplus from electricity charges:* Surplus from electricity charges comprised the surplus of receipts from the tenants in the White Horse Units after payment of the electricity bills for the White Horse Units. Tenants were charged on a cost plus basis to cover the electricity used for common areas in the Property and for the supply to them of electricity from the generators in White Horse Building. Improvements to the electricity transmission network capacity and equipment in 2005 increased the supply of electricity to White Horse Building. The operations of White Horse Building were not affected by any insufficiency or irregularity of electricity supply in the two years and six months ended 30 June 2005;
- *Administrative fees for transfer of leases:* Under the standard lease agreement for the White Horse Units, tenants in the White Horse Units were allowed to apply for early termination of their leases. Such early termination was subject to the landlord's discretion. Consent for such early termination was granted on a case by case basis, particularly if the tenant were able to procure a replacement tenant to enter into a new lease for the same premises. In such cases, the departing tenant had to pay an administrative fee equivalent to 1.5 month's rent. Each such tenant was then permitted to transfer its lease to the replacement tenant by way of cancellation of the existing lease and entry into a new lease with the replacement tenant on the same terms and conditions (save that the duration of the new lease would only have been for the unexpired term of the original lease). Such fees were levied in order to, among other things, cover the administrative costs incurred.

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The table below sets out the number of leases in the White Horse Units that were so transferred in FY2003, FY2004 and each of the six months ended 30 June 2004 and 30 June 2005:

	FY2003	FY2004	Six months ended 30 June	
			2004	2005
Number of leases transferred	163	143	62	125
<i>% of average number of leases</i>	<i>18.6%</i>	<i>14.4%</i>	<i>6.9%</i>	<i>9.7%</i>
Gross Rentable Area under the leases transferred (sq.m.)	6,415	5,671	2,492	4,387
<i>% of total Gross Rentable Area as at end of the period</i>	<i>13.7%</i>	<i>11.6%</i>	<i>5.1%</i>	<i>9.1%</i>

- *Income from indoor illuminated billboards:* Income from indoor illuminated billboards comprised charges paid by tenants for the use of illuminated billboards installed within White Horse Building to display advertisements. Contracts for such purpose were typically for a duration of two years;
- *Ad hoc and other miscellaneous income:* Ad hoc and other miscellaneous income consisted of income derived from the casual letting of the events hall as well as the meeting and conference rooms in White Horse Building, organisation of garment exhibitions and other events in the events hall, and other miscellaneous income; and
- *Fair value gain:* This reflects the accounting assessment of fair value gain in rental deposits under HKFRS.

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The following table sets out the other gains — net of the White Horse Units for FY2003, FY2004 and each of the six months ended 30 June 2004 and 30 June 2005:

	FY2003	FY2004	Six months ended	
			30 June	
			(Unaudited)	
			2004	2005
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Consultancy fees	1,482	626	346	225
Labour charges	432	17	11	5
Surplus from electricity charges	4,495	3,684	1,197	845
Administrative fees for transfer of leases	1,914	1,685	727	1,973
Income from illuminated billboards	444	—	—	225
Ad hoc and other miscellaneous income	2,106	2,059	1,071	2,111
Fair value gains of rental deposits	281	1	310	1
Other gains — net	11,154	8,072	3,662	5,385

The GCCD Properties

Other gains — net from the operations of the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units comprised forfeitures of rental deposits pursuant to early termination of leases in these Properties and accounting assessment of fair value gain in rental deposits under HKFRS.

Forfeited amounts comprised the surplus of deposits over rents receivable from departing tenants. The following table sets out the income from forfeitures of rental deposits in each of the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units for FY2003, FY2004 and each of the six months ended 30 June 2004 and 30 June 2005:

	FY2003	FY2004	Six months ended	
			30 June	
			(Unaudited)	
			2004	2005
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Fortune Plaza Units	—	155	7	—
City Development Plaza Units	383	562	98	44
Victory Plaza Units	—	427	392	35
	383	1,144	497	79

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Direct outgoings

The direct outgoings of the Properties consisted of charges in respect of (i) property management fees; (ii) promotional and agency expenses; (iii) fitting out and maintenance expenses; (iv) depreciation expenses; (v) business tax and flood prevention fee; (vi) bad debts; and (vii) employment benefit expenses.

Property management fees

White Horse Units — As property management services were undertaken by White Horse Property Management Company, property management fees are not reflected in the Audited Financial Statements of the Properties.

GCCD Properties — Property management fees included fees for management of vacant units in the GCCD Properties paid to Yicheng. The tenants were liable for the property management fees for the units they occupied.

Starting from October 2004, Yicheng was also appointed to provide services for liaising with marketing agents to secure tenants for such vacant units and providing tenancy services to existing tenants in respect of City Development Units and Victory Plaza Units, for which it was paid a fee equivalent to 7.0% of actual Rental Income collected.

Promotional and agency expenses

White Horse Units — Promotional and agency expenses for the White Horse Units consisted of the expenses incurred in connection with advertisements for White Horse Building placed in various media, including the print and broadcast media, and other promotional materials such as brochures and flyers.

GCCD Properties — Promotional expenses comprised expenses incurred in relation to the promotion and marketing of Fortune Plaza, City Development Plaza and Victory Plaza, including advertisements in the print media and, in the case of Victory Plaza, trade fairs held at the property. Agency fees were paid to agents who successfully recommended tenants to take up space in the GCCD Properties. These fees comprised either one-half month's or one full month's rent under the new lease depending on the term of the lease, and was paid regardless of whether the agent was a company within the GZI Group or an unrelated third party.

Fitting out and maintenance expenses

Fitting out and maintenance expenses comprised expenses for fitting out vacant units for new tenants, where necessary, and the cost of parts replacement, as well as expenses incurred in cleaning and repairing premises vacated by outgoing tenants and, if necessary, renovating vacant premises in accordance with the requirements of incoming tenants.

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Depreciation expenses

Depreciation expenses consisted of the depreciation of property, plant and equipment calculated on a straight line basis over a period of five or ten years, depending on the nature of the relevant asset.

Business tax and flood prevention fee

Business tax of 5.0% and flood prevention fee of 0.09% were levied on the Rental Income and property management fees derived from the White Horse Units and on Rental Income derived from each of the GCCD Properties. With respect to the White Horse Units, such taxes were paid by each of White Horse JV, Xingcheng and White Horse Property Management Company.

Bad debts

Bad debts comprised defaulted payments of rent not covered by security deposits and provisions for bad debts for overdue rent which was potentially non-recoverable. The amount of bad debts for each of the Fortune Plaza Units and the City Development Plaza Units during the relevant periods was insignificant (as a percentage of Gross Turnover generated by the relevant Property). In the case of the Fortune Plaza Units, the ratio was 2.7% of Gross Turnover for the six months ended 30 June 2005 (there were no bad debts in the other periods under discussion) and, in the case of the City Development Plaza Units, the ratio was 1.3% of Gross Turnover for FY2003, 1.8% for FY2004, 1.0% for the six months ended 30 June 2004 and 0.5% for the six months ended 30 June 2005. Neither the White Horse Units nor the Victory Plaza Units incurred any bad debts during the relevant periods.

Employment benefit expenses

Employment benefit expenses comprised, among other things, the salaries and bonuses of the employees of White Horse JV, Xingcheng and White Horse Property Management Company (which were subject to adjustment from time to time based on the performance of White Horse Building), other benefits granted to such employees, contributions to certain employee provident funds, housing supplements for such employees and staff welfare expenses. As Yicheng bore the relevant staff related expenses in managing the Properties, these expenses are not reflected in the Audited Financial Statements of the Properties. Other employment benefits expenses were incurred at the central administration level of GCCD. Such costs have been allocated to the GCCD Properties and are reflected below in other operating expenses. None of these employment benefit expenses will be borne by GZI REIT going forward.

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Miscellaneous expenses

White Horse Units

Miscellaneous expenses of the White Horse Properties included general administrative expenses, consultancy fees paid to consultants such as building surveyors, insurance premiums and other miscellaneous expenses as well as, in relation to every lease for the White Horse Units, stamp duty of 0.1% of the aggregate contract sum of the lease but not including any further term under any option to renew and, in relation to other contracts entered into by White Horse Property Management Company, stamp duty of between 0.03% and 0.05% of the relevant contract value, depending on the nature of the contract. In addition, an annual land use fee was paid to the Ministry of Finance in the PRC based on a rate per square metre of Gross Floor Area as determined annually by the Ministry of Finance. Approximately HK\$79,000 in land use fees (based on the White Horse Units' Gross Floor Area of 50,199.3 sq. m.) were paid in each of FY2003 and FY2004. GZI REIT will not pay such land use fees in the future as White Horse JV had paid a land grant premium for the Property in June 2005. This land grant premium of approximately HK\$53.0 million was capitalised and transferred to the BVI Companies.

Cleaning and landscaping expenses, expenses relating to fire safety systems at White Horse Building, security expenses and fuel costs relating to electricity generation were also included in this category of expenses.

The GCCD Properties

Miscellaneous expenses for the GCCD Properties comprised insurance premiums paid for comprehensive property insurance for the GCCD Properties whenever the relevant Property was used as security for bank borrowings taken by the GZI Group, expenses for office supplies, seasonal decorations at the relevant Properties and entertainment and travelling expenses incurred in the promotion of Fortune Plaza and Victory Plaza (both newly completed developments in 2003), as well as other miscellaneous or non-recurring expenses. Other operating expenses also comprised, in relation to every lease for the Fortune Plaza Units, the City Development Plaza Units or the Victory Plaza Units, stamp duty of 0.1% of the aggregate contract sum of the lease, but not including any further term under any option to renew.

Many of the miscellaneous expenses incurred by the White Horse Units were not incurred by the GCCD Properties as such costs were incurred at the GCCD administrative level and by the property managers of the GCCD Properties. Such costs have been allocated to the GCCD Properties and are reflected below in other operating expenses.

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Other operating expenses

Certain other operating expenses were incurred by the GZI Group (including GCCD) in relation to the ownership and operation of its property portfolio as a whole (including the Fortune Plaza Units, the City Development Plaza Units, the Victory Plaza Units and other properties that will not form part of GZI REIT) and could not be allocated directly to any of these three Properties. These expenses included, among other things, advertising and promotional expenses as well as general and administrative expenses that could not be directly attributed to specific properties within GZI's portfolio.

The Manager has allocated these other operating expenses to each of these Properties using an allocation basis which the Manager considers to be reasonable. To this end, the staff costs of the leasing department and property development department of GCCD were extracted from GCCD's income statements. All operating expenses, excluding the aforementioned staff costs, were then allocated to the leasing department and property development department based on a ratio calculated by dividing the staff costs of each department by the total staff costs of both departments. All operating expenses allocated to the leasing department were further allocated to the respective Properties based on a ratio calculated by dividing the carrying value of the relevant Properties by the total carrying value of all investment properties managed by the leasing department of GCCD for each of the relevant periods.

Movements in these other operating expenses over the relevant periods were due to the changes in the allocation basis described in the paragraph immediately above (including, but not limited to, GCCD's total expenses not directly attributable to the GCCD Properties, the carrying value of the relevant Properties as well as the total carrying value of all investment properties managed by the leasing department of GCCD) and not to changes to the manner in which the Properties were operated or the actual costs of such operations.

The movements in other operating expenses have been historically driven by the relative movements in the carrying fair value of the Fortune Plaza Units, the City Development Units and the Victory Plaza Units vis-a-vis all investment properties of GCCD as well as the relative ratio of staff numbers between GCCD's investment property division and property development division as well as the overall movements in operating expenses at the GCCD level.

Finance costs

Interest charges incurred at the central treasury of GCCD are not reflected in the Audited Financial Statements of the Properties as there were no direct bank borrowings in respect of the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units.

There were no finance costs incurred for the White Horse Units over the two years and six months ended 30 June 2005.

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Fair value gain on investment properties

According to the relevant accounting polices, investment properties are initially required to be stated at cost and are restated at their fair value at each balance sheet date thereafter. Changes in fair value were recognised in the income statements.

Income tax expenses

Income tax expenses were reported to the relevant tax bureau on an entity basis by GCCD, White Horse JV or Xingcheng, where applicable. As such, income tax expenses for the four Properties were calculated based on the tax rate applicable to them as if they were collectively a separate tax entity.

PRC enterprise income taxation was provided for in respect of the profits of the Properties in the PRC at 33.0% on assessable profit, in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises. The actual taxation on the Properties' profit before taxation, however, differed from the theoretical amount that would have arisen using the enterprise income tax rate (33.0%) of the PRC due to some tax exempt income and non-tax deductible expenses as shown below:

	FY2003	FY2004	Six months ended 30 June	
			(Unaudited)	
	FY2003	FY2004	2004 ⁽¹⁾	2005
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Profit before taxation	344,464	132,859	62,755	681,058
Tax calculated at PRC enterprise income tax rate of 33.0%	113,673	43,843	20,709	224,749
Income not subject to taxation	(4,065)	(84)	—	(10,099)
Expenses not deductible for taxation purpose	—	514	—	—
Income tax expenses	109,608	44,273	20,709	214,650

Note:

(1) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.

Income not subject to taxation mainly relates to the portion of revaluation gain (business taxes) not subject to taxation. Expenses not deductible for taxation purpose mainly relate to staff costs (appropriation of staff welfare reserve) not deductible for taxation.

The enterprise income tax rate will not be applicable for the BVI Companies going forward. (See the sections headed "Manager's Discussion and Analysis of Future Operations" and "Profit Forecast" in this Offering Circular.)

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Principal Accounting Policies

For the principal accounting policies in relation to each of the Properties, please refer to the Audited Financial Statements of the Properties set out in Appendix I to this Offering Circular.

Following the transfer of the Properties to GZI REIT, the management structure and the cost and capital structures of the Properties as well as the management philosophy and operational processes of the Manager are expected to differ from those previously adopted with respect to the Properties. These variations are expected to affect the future financial results of GZI REIT (see the sections headed "Manager's Discussion and Analysis of Future Operations" and "Profit Forecast" in this Offering Circular).

Comparison of Results of Operations for the Six Months Ended 30 June 2005 with the Six Months Ended 30 June 2004

White Horse Units

An extract of the income statement of the White Horse Units for each of the six months ended 30 June 2004 and 30 June 2005 is set out below:

	Six months ended 30 June	
	(Unaudited)	
	2004 ⁽¹⁾	2005
	(HK\$'000)	(HK\$'000)
Gross Turnover	48,112	65,916
Other gains — net	3,662	5,385
Direct outgoings of the Property	(14,151)	(16,050)
Promotional and agency expenses	(505)	(383)
Fitting out and maintenance expenses	(864)	(929)
Depreciation expenses	(688)	(611)
Business tax and flood prevention fee	(3,368)	(4,833)
Bad debts	—	—
Employment benefit expenses	(6,199)	(7,153)
Miscellaneous expenses	(2,527)	(2,141)
Operating Income	37,623	55,251

Note:

(1) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Gross Turnover

Gross Turnover increased by 37.0%, from HK\$48.1 million for the six months ended 30 June 2004 to HK\$65.9 million for the six months ended 30 June 2005 mainly due to a rental increase for the majority leases in the White Horse Units subsequent to negotiation with the tenants in the annual review. As a result of the expiration and termination of two head leases covering approximately 11,000 sq.m., approximately 200 new leases had been contracted with the user tenants during the third quarter of 2004 at starting rents which were approximately three times higher than the previous leases. These new leases are set to expire 31 December 2005.

Other gains — net — Other gains — net increased by 45.9%, from HK\$3.7 million for the six months ended 30 June 2004 to HK\$5.4 million for the six months ended 30 June 2005. The growth was mainly due to the increase in administrative fees for transfers of leases of HK\$1.2 million from 125 leases transferred, which represented an increase of 63 leases compared to the six months ended 30 June 2004. It is considered that the variations in the number of leases transferred is ad hoc by nature and may not correspond to any particular reason.

Direct outgoings of the White Horse Units

Direct outgoings of the White Horse Units increased by 13.4%, from HK\$14.2 million for the six months ended 30 June 2004 to HK\$16.1 million for the six months ended 30 June 2005. The movement was mainly attributable to the increase in staff costs as well as business tax and flood prevention fee.

Promotional and agency expenses — Such expenses fell by 20.0%, from HK\$0.5 million for the six months ended 30 June 2004 to HK\$0.4 million for the six months ended 30 June 2005. Lower promotional expenses were incurred in the six months ended 30 June 2005 as White Horse Property Management Company focused on renewing the tenancy agreements of existing tenants instead of seeking new tenants.

Fitting out and maintenance expenses — Fitting out and maintenance expenses remained stable at approximately HK\$0.9 million for both six months ended 30 June 2004 and 2005.

Depreciation expenses — Depreciation expenses decreased by 14.3%, from HK\$0.7 million for the six months ended 30 June 2004 to HK\$0.6 million for the six months ended 30 June 2005 because certain assets were fully depreciated in FY2004.

Business tax and flood prevention fee — Business tax and flood prevention fee increased by 41.2%, from HK\$3.4 million for the six months ended 30 June 2004 to HK\$4.8 million for the six months ended 30 June 2005, in line with the growth in Gross Turnover and property management fees derived from the White Horse Units.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Bad debts — There were no bad debts in the six months ended 30 June 2004 and the six months ended 30 June 2005.

Employment benefit expenses — Employment benefit expenses rose by 16.1%, from HK\$6.2 million for the six months ended 30 June 2004 to HK\$7.2 million for the six months ended 30 June 2005 because of a higher headcount (from approximately 120 in the six months ended 30 June 2004 to approximately 130 in the six months ended 30 June 2005) and also because salaries and bonuses were adjusted upwards in the six months ended 30 June 2005 to reward employees for the improved performance of the White Horse Units.

Miscellaneous expenses — Miscellaneous expenses decreased by 16.0%, from HK\$2.5 million for the six months ended 30 June 2004 to HK\$2.1 million for the six months ended 30 June 2005. This decrease was primarily due to a fall in expenses for office supplies and lower fuel costs relating to electricity generation (of HK\$0.4 million). The decrease was offset in part by an increase in cleaning and landscaping expenses in the six months ended 30 June 2005 necessitated by dust and dirt from public works along a road outside White Horse Buildings, as well as higher expenditures in the six months ended 30 June 2005 to improve the fire safety and security systems in the building.

Operating Income

As a result of the foregoing factors, Operating Income increased by HK\$17.7 million, or 47.1%, from HK\$37.6 million for the six months ended 30 June 2004 to HK\$55.3 million for the six months ended 30 June 2005. The Operating Income margin improved from 78.2% for the six months ended 30 June 2004 to 83.8% for the six months ended 30 June 2005.

Fair value gain on investment properties

The revaluation of the White Horse Units as at 30 June 2005 resulted in an increase in fair value of HK\$455.7 million. The significant increase in fair value was based on the fact that the majority of the tenancy agreements expiring on 31 December 2005 were renewed at much higher rental rates. There was no revaluation of the White Horse Units for six months ended 30 June 2004.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fortune Plaza Units

An extract of the income statement of the Fortune Plaza Units for each of the six months ended 30 June 2004 and 30 June 2005 is set out below:

	Six months ended 30 June	
	(Unaudited)	
	2004 ⁽¹⁾	2005
	(HK\$'000)	(HK\$'000)
Gross Turnover	1,917	13,334
Other gains — net	35	127
Direct outgoings of the Property	(1,923)	(4,546)
Property management fees	(1,301)	(1,200)
Promotional and agency expenses	(457)	(2,071)
Fitting out and maintenance expenses	(65)	(73)
Business tax and flood prevention fee	(98)	(679)
Bad debts	—	(355)
Miscellaneous expenses	(2)	(168)
Other operating expenses	(377)	(1,026)
Operating Income	(348)	7,889

Note:

(1) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.

Gross Turnover — Gross Turnover increased by approximately 600.0%, from HK\$1.9 million for the six months ended 30 June 2004 to HK\$13.3 million for the six months ended 30 June 2005, reflecting the continuous increase in the occupancy rates of the Fortune Plaza Units since the completion of Fortune Plaza, from 9.5% for the six months ended 30 June 2004 to 60.0% for the six months ended 30 June 2005.

Other gains — net — Such other gains of approximately HK\$35,000 were recorded for the six months ended 30 June 2004, as compared to HK\$0.1 million for the six months ended 30 June 2005.

Direct outgoings

Direct outgoings of the Fortune Plaza Units increased by 136.8%, from HK\$1.9 million for the six months ended 30 June 2004 to HK\$4.5 million for the six months ended 30 June 2005.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Property management fees — Property management fees decreased by 7.7%, from HK\$1.3 million for the six months ended 30 June 2004 to HK\$1.2 million for the six months ended 30 June 2005.

Promotional and agency expenses — Promotional and agency expenses increased by approximately 320.0%, from HK\$0.5 million for the six months ended 30 June 2004 to HK\$2.1 million for the six months ended 30 June 2005. The higher spending on promotional and agency expenses resulted from the higher promotional expenses expended to improve occupancy rates in the latter period as compared to the earlier period.

Fitting out and maintenance expenses — Fitting out and maintenance expenses were negligible in each of the six months ended 30 June 2004 (approximately HK\$65,000) and 30 June 2005 (approximately HK\$73,000) as Fortune Plaza was constructed only in 2003.

Business tax and flood prevention fee — Business tax and flood prevention fee in aggregate represented 5.09% of the Gross Turnover of the Fortune Plaza Units.

Bad debts — No bad debts were incurred for the six months ended 30 June 2004 but bad debts of approximately HK\$355,000 arose for the six months ended 30 June 2005 as a result of a provision for potentially non-recoverable overdue rent from one tenant. The lease agreement with this tenant was terminated in September 2005.

Miscellaneous expenses — Miscellaneous expenses increased from approximately HK\$2,000 for the six months ended 30 June 2004 to HK\$0.2 million over for the six months ended 30 June 2005.

Operating Income

As a result of the foregoing factors and other operating expenses which were not directly attributable to the Fortune Plaza Units, Operating Income improved significantly from a loss of HK\$0.3 million for the six months ended 30 June 2004 to a profit of HK\$7.9 million for the six months ended 30 June 2005.

Fair value gain on investment properties

The revaluation of the Fortune Plaza Units as at 30 June 2005 resulted in an increase in fair value of HK\$143.9 million to reflect the prevailing market conditions. There was no revaluation of the Fortune Plaza Units for the six months ended 30 June 2004.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

City Development Plaza Units

An extract of the income statement of the City Development Plaza Units for each of the six months ended 30 June 2004 and 30 June 2005 is set out below:

	Six months ended 30 June	
	(Unaudited)	
	2004 ⁽¹⁾	2005
	(HK\$'000)	(HK\$'000)
Gross Turnover	17,084	17,499
Other gains — net	203	163
Direct outgoings of the Property	(1,773)	(2,787)
Property management fees	(192)	(1,454)
Promotional and agency expenses	(239)	(213)
Fitting out and maintenance expenses	(77)	—
Business tax and flood prevention fee	(870)	(891)
Bad debts	(167)	(88)
Miscellaneous Expenses	(228)	(141)
Other operating expenses	(389)	(748)
Operating Income	15,125	14,127

Note:

(1) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.

Gross Turnover — Gross Turnover increased by 2.3%, from HK\$17.1 million for the six months ended 30 June 2004 to HK\$17.5 million for the six months ended 30 June 2005.

Other gains — net — Such other gains remained constant at HK\$0.2 million for each of the six months ended 30 June 2004 and 30 June 2005.

Direct outgoings

Direct outgoings of the City Development Plaza Units increased by 55.6% from HK\$1.8 million for the six months ended 30 June 2004 to HK\$2.8 million for the six months ended 30 June 2005.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Property management fees — Property management fees increased by approximately 6.8 times, from HK\$192,000 for the six months ended 30 June 2004 to HK\$1.5 million for the six months ended 30 June 2005. The main reason for the increase was the appointment of Yicheng in October 2004 to provide services in liaising with marketing agents to secure tenants for vacant units and providing tenancy services to existing tenants, for which Yicheng was paid a liaison fee equivalent to 7.0% of actual Rental Income collected.

Promotional and agency expenses — Consistent with the stable occupancy rates of the City Development Plaza Units during the relevant periods, promotional and agency expenses remained relatively stable at approximately HK\$239,000 for the six months ended 30 June 2004 and approximately HK\$213,000 for the six months ended 30 June 2005.

Fitting out and maintenance expenses — Approximately HK\$77,000 was spent on fitting out and maintenance for the six months ended 30 June 2004 while no such expenditures were incurred for the six months ended 30 June 2005. Such expenditures have been relatively low for the City Development Plaza Units because the Property has been well maintained over the years.

Business tax and flood prevention fee — Business tax and flood prevention fee in aggregate represented 5.09% of the Gross Turnover of the City Development Plaza Units.

Bad debts — Bad debts fell by 47.3%, from approximately HK\$167,000 for the six months ended 30 June 2004 to approximately HK\$88,000 for the six months ended 30 June 2005. These amounts represented 1.0% and 0.5% of Gross Turnover for the respective periods.

Miscellaneous expenses — Miscellaneous expenses were relatively low at HK\$0.2 million for the six months ended 30 June 2004 and HK\$0.1 million for the six months ended 30 June 2005.

Operating Income

As a result of the foregoing factors and other operating expenses which were not directly attributable to the City Development Plaza Units, Operating Income decreased by 6.6%, from HK\$15.1 million for the six months ended 30 June 2004 to HK\$14.1 million for the six months ended 30 June 2005. The margin of Operating Income fell from 88.5% for the six months ended 30 June 2004 to 80.7% for the six months ended 30 June 2005.

Fair value gain on investment properties

The revaluation of the City Development Plaza Units as at 30 June 2005 resulted in an increase in fair value of HK\$12.4 million. There was no revaluation of the City Development Plaza Units for six months ended 30 June 2004.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Victory Plaza Units

An extract of the income statement of the Victory Plaza Units for each of the six months ended 30 June 2004 and 30 June 2005 is set out below:

	Six months ended 30 June	
	(Unaudited)	
	2004 ⁽¹⁾	2005
	(HK\$'000)	(HK\$'000)
Gross Turnover	12,497	12,846
Other gains — net	506	188
Direct outgoings of the Property	(1,919)	(3,664)
Property management fees	(321)	(943)
Promotional and agency expenses	(786)	(769)
Fitting out and maintenance expenses	(71)	(202)
Business tax and flood prevention fee	(636)	(654)
Bad debts	—	—
Miscellaneous expenses	(105)	(1,096)
Other operating expenses	(729)	(672)
Operating Income	10,355	8,698

Note:

(1) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.

Gross Turnover — Gross Turnover increased by 2.4%, from HK\$12.5 million for the six months ended 30 June 2004 to HK\$12.8 million for the six months ended 30 June 2005.

Other gains — net — Such other gains fell from HK\$0.5 million for the six months ended 30 June 2004 to HK\$0.2 million for the six months ended 30 June 2005 as the tenant turnover rate, and hence forfeiture of rental deposits, in the Victory Plaza Units fell as Victory Plaza became more established.

Direct outgoings

Direct outgoings of the Victory Plaza Units increased by 94.7%, from HK\$1.9 million for the six months ended 30 June 2004 to HK\$3.7 million for the six months ended 30 June 2005.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Property management fees — Property management fees increased by 200.0%, from HK\$0.3 million for the six months ended 30 June 2004 to HK\$0.9 million for the six months ended 30 June 2005. The main reason for the increase was the appointment of Yicheng in October 2004 to liaise with marketing agents to secure tenants for vacant units and to provide tenancy services to existing tenants in the Victory Plaza Units.

Promotional and agency expenses — Promotional and agency expenses remained at approximately HK\$0.8 million for both the six months ended 30 June 2004 and 30 June 2005.

Fitting out and maintenance expenses — Fitting out and maintenance expenses increased by approximately 181.7%, from approximately HK\$71,000 for the six months ended 30 June 2004 to HK\$0.2 million for the six months ended 30 June 2005 due to the fitting out expenses incurred in preparation for Guangzhou GOME Electrical Appliances Co. Ltd.'s occupancy of basement 1 of the Property.

Business tax and flood prevention fee — Business tax and flood prevention fee in aggregate represented 5.09% of the Gross Turnover of the Victory Plaza Units.

Bad debts — No bad debts were incurred for the six months ended 30 June 2004 and the six months ended 30 June 2005.

Miscellaneous expenses — Miscellaneous expenses increased by approximately 10 times, from HK\$0.1 million for the six months ended 30 June 2004 to HK\$1.1 million for the six months ended 30 June 2005 due to compensation paid to the existing tenant in basement 1 of the Victory Plaza podium for early termination of its leases so that Guangzhou Gome Electrical Appliances Co. Ltd. could lease that space as a new tenant.

Operating Income

As a result of the foregoing factors and other operating expenses which were not directly attributable to the Victory Plaza Units, Operating Income declined from HK\$10.4 million for the six months ended 30 June 2004 to HK\$8.7 million for the six months ended 30 June 2005.

Fair value gain on investment properties

There were no revaluation gains or losses for the Victory Plaza Units for either of the six months ended 30 June 2004 or 30 June 2005.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Comparison of Results of Operations for FY2004 with FY2003

White Horse Units

An extract of the income statement of the White Horse Units for each of FY2003 and FY2004 is set out below:

	FY2003	FY2004
	(HK\$'000)	(HK\$'000)
Gross Turnover	89,754	104,737
Other gains — net	11,154	8,072
Direct outgoings of the Property	(31,796)	(35,309)
Promotional and agency expenses	(1,997)	(644)
Fitting out and maintenance expenses	(1,458)	(1,543)
Depreciation expenses	(1,664)	(1,285)
Business tax and flood prevention fee	(6,615)	(7,287)
Bad debts	—	—
Employment benefit expenses	(14,757)	(17,488)
Miscellaneous expenses	(5,305)	(7,062)
Operating Income	69,112	77,500

Gross Turnover — Gross Turnover increased by 16.6%, from HK\$89.8 million in FY2003 to HK\$104.7 million in FY2004. This increase was mainly due to a rental increment in the majority of leases in the White Horse Units subsequent to negotiation with the tenants in the annual review. Another reason for the rise was due to an increase in the Property's Gross Rentable Area by approximately 2,030 sq.m. in FY2004 which was attributable to the improved efficiency after reformatting the floor space. As a result of terminating two head-leases covering approximately 11,000 sq.m., approximately 200 new leases had been contracted with the user tenants around the third quarter of 2004 at starting rents which were approximately three times higher than the previous leases. These new leases will expire on 31 December 2005.

Other gains — net — Such other gains decreased by 27.7%, from HK\$11.2 million in FY2003 to HK\$8.1 million in FY2004, mainly due to decreases in consultancy fees, labour charges and administrative fees for transfers of leases (from 163 transfers in FY2003 to 143 transfers in FY2004).

Direct outgoings

Direct outgoings of the White Horse Units increased by 11.0%, from HK\$31.8 million in FY2003 to HK\$35.3 million in FY2004.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Promotional and agency expenses — Promotional expenses fell by 70.0%, from HK\$2.0 million in FY2003 to HK\$0.6 million in FY2004. The significant decrease resulted because an advertising campaign on national television which was undertaken in FY2003 was not repeated in FY2004.

Fitting out and maintenance expenses — Fitting out and maintenance expenses remained stable at HK\$1.5 million in both FY2003 and FY2004.

Depreciation expenses — Charges for depreciation decreased by 23.5%, from HK\$1.7 million for FY2003 to HK\$1.3 million for FY2004 as certain assets were fully depreciated in FY2003.

Business tax and flood prevention fee — Business tax and flood prevention fee increased by 10.6%, from HK\$6.6 million for FY2003 to HK\$7.3 million for FY2004, in line with the growth in Gross Turnover derived from the White Horse Units.

Bad debts — No bad debts were incurred in FY2003 or FY2004.

Employment benefit expenses — Employment benefit expenses rose by 18.2%, from HK\$14.8 million in FY2003 to HK\$17.5 million in FY2004. This increase was mainly due to a provision for a staff welfare reserve of approximately HK\$1.5 million, which was not an annual recurring item. There was also a higher headcount in FY2004 and salaries and bonuses were adjusted upwards in that year to reward employees for the improved performance of the White Horse Units.

Miscellaneous expenses — Miscellaneous expenses increased by 34.0%, from HK\$5.3 million in FY2003 to HK\$7.1 million in FY2004. The growth was due to increases of HK\$1.0 million of expenses incurred as a result of organising some events for tenants at White House Building. In addition, cleaning and landscaping costs and fuel costs increased by approximately HK\$0.3 million and HK\$0.4 million respectively.

Operating Income

As a result of the foregoing factors, Operating Income increased by 12.1%, from HK\$69.1 million in FY2003 to HK\$77.5 million in FY2004. The margin of Operating Income was maintained at 77.0% and 74.0% in FY2003 and FY 2004 respectively.

Fair value gain on investment properties

The revaluation of the White Horse Units as at 31 December 2004 resulted in an increase in fair value of HK\$53.7 million, compared to a decrease in fair value of HK\$3.2 million for FY2003, reflecting the then prevailing market conditions.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fortune Plaza Units

An extract of the income statement of the Fortune Plaza Units for each of FY2003 and FY2004 is set out below:

	FY2003	FY2004
	(HK\$'000)	(HK\$'000)
Gross Turnover	150	9,042
Other gains — net	10	255
Direct outgoings of the Property	(1,205)	(6,623)
Property management fees	(188)	(3,046)
Promotional and agency expenses	(775)	(2,972)
Fitting out and maintenance expenses	—	(135)
Business tax and flood prevention fee	(8)	(460)
Bad debts	—	—
Miscellaneous expenses	(234)	(10)
Other operating expenses	(608)	(705)
Operating Income	(1,653)	1,969

Gross Turnover — Gross Turnover increased from HK\$0.2 million in FY2003 to HK\$9.0 million in FY2004. Gross Turnover in respect of the Fortune Plaza Units was only received from November 2003 onwards as Fortune Plaza was newly completed in FY2003. Gross Turnover improved in FY2004 when the Fortune Plaza Units achieved an average occupancy rate of 21.0%.

Other gains — net — Such other gains rose from approximately HK\$10,000 in FY2003 to HK\$0.3 million in FY2004.

Direct outgoings

Direct outgoings of the Fortune Plaza Units increased by 450.0%, from HK\$1.2 million in FY2003 to HK\$6.6 million in FY2004 as Gross Turnover was only received from November 2003 onwards.

Property management fees — Property management fees increased by approximately 14 times, from HK\$0.2 million in FY2003 to HK\$3.0 million in FY2004. The growth in property management fees was due to the fact that Fortune Plaza only came into operation in the second half of 2003, and thus no such fees were incurred for the first half of FY2003. Another cause for the increase was the fact that prior to September 2004, due to the low occupancy rates of the Fortune Plaza Units in the initial operating period of Fortune Plaza after construction was completed, Yicheng agreed to levy its fees on a cost plus basis with a low margin. From September 2004 onwards, however, such fees were charged in full in respect of unoccupied premises within the Fortune Plaza Units based on a rate of HK\$12.50 per sq.m. per month for units in the office tower block and HK\$17.50 per sq.m. per month for units in the retail podium.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Promotional and agency expenses — Promotional and agency expenses increased by approximately 275.0%, from HK\$0.8 million in FY2003 to HK\$3.0 million in FY2004. The increase resulted from the fact that a large portion of the Fortune Plaza Units was originally earmarked for sale in FY2003 and only in FY2004 was the decision made to include those portions in the initial portfolio of GZI REIT. The decision to retain those units necessitated considerably greater amounts of advertising to secure tenants for the Fortune Plaza Units. Also, no agency fees were paid in FY2003, while agency fees of HK\$0.7 million were paid in FY2004.

Fitting out and maintenance expenses — As Fortune Plaza was only completed in FY2003, there were no fitting out and maintenance expenses incurred that year, while a minor amount of approximately HK\$135,000 was incurred for such expenses in FY2004.

Business tax and flood prevention fee — Business tax and flood prevention fee in aggregate represented 5.09% of the Gross Turnover of the Fortune Plaza Units.

Bad debts — There were no bad debts in FY2003 and FY2004.

Other expenses — Other expenses of approximately HK\$234,000 were incurred in FY2003, mainly for seasonal decorations, while only approximately HK\$10,000 was incurred for such expenses in FY2004.

Operating Income

As a result of the foregoing factors and other operating expenses which were not directly attributable to Fortune Plaza Units, Operating Income improved from a loss of HK\$1.7 million in FY2003 to a profit of HK\$2.0 million in FY 2004.

Fair value gain on investment properties

The revaluation of the Fortune Plaza Units as at 31 December 2004 resulted in an increase in fair value of HK\$8.4 million, compared to an increase in fair value of HK\$205.9 million for FY2003, reflecting the then prevailing market conditions.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

City Development Plaza Units

An extract of the income statement of the City Development Plaza Units for each of FY2003 and FY2004 is set out below:

	FY2003	FY2004
	(HK\$'000)	(HK\$'000)
Gross Turnover	31,911	33,904
Other gains — net	476	648
Direct outgoings of the Property	(3,194)	(4,187)
Property management fees	(563)	(991)
Promotional and agency expenses	(358)	(417)
Fitting out and maintenance expenses	(15)	(77)
Business tax and flood prevention fee	(1,624)	(1,726)
Bad debts	(430)	(611)
Miscellaneous expenses	(204)	(365)
Other operating expenses	(1,065)	(730)
Operating Income	28,128	29,635

Gross Turnover — Gross Turnover increased by 6.3%, from HK\$31.9 million in FY2003 to HK\$33.9 million in FY2004, largely due to the increased occupancy rates of the City Development Plaza Units from 83.6% in FY2003 to 89.4% in FY2004.

Other gains — net — Such other gains increased by 20.0%, from HK\$0.5 million in FY2003 to HK\$0.6 million in FY2004 as a greater number of leases which were terminated early in FY2004.

Direct outgoings

Direct outgoings of the City Development Plaza Units increased by 31.3% from HK\$3.2 million in FY2003 to HK\$4.2 million in FY2004.

Property management fees — Property management fees rose by 66.7%, from HK\$0.6 million in FY2003 to HK\$1.0 million in FY2004. The main reason for the increase was the appointment of Yicheng in October 2004 to provide services for liaising with marketing agents to secure tenants for vacant units and to provide tenancy services to existing tenants.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Promotional and agency expenses — Promotional and agency expenses remained stable at HK\$0.4 million in both FY2004 and FY2005 as City Development Plaza was already a mature development with stable occupancy rates, and hence did not require extensive promotion.

Fitting out and maintenance expenses — Fitting out and maintenance expenses increased from approximately HK\$15,000 in FY2003 to approximately HK\$77,000 in FY2004.

Business tax and flood prevention fee — Business tax and flood prevention fee in aggregate represented 5.09% of the Gross Turnover of the City Development Plaza Units.

Bad debts — Bad debts increased by 42.1%, from approximately HK\$430,000 in FY2003 to approximately HK\$611,000 in FY2004. These amounts represented 1.3% and 1.8% of the Gross Turnover for the respective periods.

Miscellaneous expenses — Miscellaneous expenses rose by approximately 100.0%, from HK\$0.2 million in FY2003 to HK\$0.4 million in FY2004. The main reason for this significant increase was the fact that New Year and Christmas celebrations were organised in FY2004 whereas neither occasion was celebrated in FY2003.

Operating Income

As a result of the foregoing factors and other operating expenses which were not directly attributable to the City Development Plaza Units, Operating Income increased by 5.4%, from HK\$28.1 million in FY2003 to HK\$29.6 million in FY2004. The margins of Operating Income fell from 88.1% in FY2003 to 87.4% in FY2004.

Fair value gain on investment properties

The revaluation of the City Development Plaza Units as at 31 December 2004 resulted in a decrease in fair value of HK\$119.6 million mainly due to a decrease in estimated Rental Income from the podium area, including the atrium for exhibition. Previously, the valuer projected sizeable income to be generated from the atrium which did not materialise in 2004.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Victory Plaza Units

An extract of the income statement of the Victory Plaza Units for each of FY2003 and FY2004 is set out below:

	FY2003	FY2004
	(HK\$'000)	(HK\$'000)
Gross Turnover	7,580	24,397
Other gains — net	91	506
Direct outgoings of the Property	(3,881)	(4,891)
Property management fees	(470)	(1,663)
Promotional and agency expenses	(2,365)	(1,127)
Fitting out and maintenance expenses	(1)	(361)
Business tax and flood prevention fee	(386)	(1,242)
Bad debts	—	—
Miscellaneous expenses	(659)	(498)
Other operating expenses	(1,254)	(1,364)
Operating Income	2,536	18,648

Gross Turnover — Gross Turnover increased by 221.1%, from HK\$7.6 million in FY2003 to HK\$24.4 million in FY2004. Gross Turnover in respect of the Victory Plaza Units was only received from October 2003 onwards as the Victory Plaza podium was newly completed in FY2003. Gross Turnover improved in FY2004 as the Victory Plaza Units achieved an average occupancy rate of 81.8% in that year.

Other gains — net — Such other gains rose from approximately HK\$91,000 in FY2003 to HK\$0.5 million in FY2004, mainly due to the forfeiture of rental deposits of approximately HK\$0.4 million in FY2004 whereas no such income was recorded in FY2003.

Direct outgoings

Direct outgoings of the Victory Plaza Units increased by 25.6%, from HK\$3.9 million in FY2003 to HK\$4.9 million in FY2004.

Property management fees — Property management fees increased by 240.0%, from HK\$0.5 million in FY2003 to HK\$1.7 million in FY2004. The increase in fees for management of vacant units and liaising with marketing agents resulted because the Victory Plaza podium only came into operation in the second half of 2003, which meant that no such fees were incurred for the first half of FY2003. The appointment of Yicheng in October 2004 to liaise with marketing agents and to provide tenancy services also contributed to the increase in these expenses. Yicheng was paid a fee equivalent to 7.0% of actual Rental Income collected.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Promotional and agency expenses — Promotional and agency expenses fell by 54.2%, from HK\$2.4 million in FY2003 to HK\$1.1 million in FY2004 as the occupancy rate of the Victory Plaza Units improved in FY2004, thus necessitating lower spending on such expenses.

Fitting out and maintenance expenses — Expenditures for routine repair and maintenance in FY2003 totalled only approximately HK\$1,000 as the Victory Plaza podium was newly completed that year while HK\$0.4 million was incurred in FY2004. The increase in FY2004 resulted primarily from the conversion of basement 1 of the Victory Plaza podium, which had previously accommodated a supermarket, for use by Guangzhou Gome Electrical Appliances Co. Ltd., a retailer of electronic and electrical equipment. The increase was also due in part to the renovation in FY2004 of the 4th storey of the Victory Plaza podium, which had previously been set up as a specialty location for retailers of telecommunications equipment, to make it more suitable for general use.

Business tax and flood prevention fee — Business tax and flood prevention fee in aggregate represented 5.09% of the Gross Turnover of the Victory Plaza Units.

Bad debts — There were no bad debts in FY2003 or FY2004.

Miscellaneous expenses — Miscellaneous expenses fell by 28.6%, from HK\$0.7 million in FY2003 to HK\$0.5 million in FY2004, largely because greater expenses were incurred in FY2003 on a series of celebrations and other events organised to mark the opening of the Victory Plaza podium.

Operating Income

As a result of the foregoing factors and other operating expenses which were not directly attributable to Victory Plaza Units, Operating Income increased by approximately 644.0%, from HK\$2.5 million in FY2003 to HK\$18.6 million in FY2004.

Fair value gain on investment properties

The revaluation of the Victory Plaza Units as at 31 December 2004 resulted in an increase in fair value of HK\$62.6 million, compared to an increase in fair value of HK\$70.7 million for FY2003, reflecting the then prevailing market conditions.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The treasury and cash disbursement functions of the GCCD Properties were centrally administered by GCCD. As such, cash and cash equivalents, bank loans and payables were dealt with in the current account with subsidiaries of GZI as shown in the Audited Financial Statements of the Properties set out in the Appendix I to this Offering Circular.

The principal sources of funding for the original development as well as the subsequent expansions and renovations of the White Horse Units have historically been internally generated funds.

Capital Expenditures

White Horse Building underwent major addition and alteration works on two occasions, once between 1995 and 1997 and again between 1998 and 2000. Between 1995 and 1997, the open courtyard of the building was converted into an events hall used to accommodate a food court and to stage fashion events. In 2000, the north and west wings of the building were extended outwards between the 3rd and 7th storeys, and a further two storeys were added to the building to form the 8th and 9th storeys. The two addition and alteration projects added another 15,250 sq.m. to the building's Gross Floor Area.

There were no material capital expenditures incurred by the GCCD Properties during the relevant periods.

Capital expenditures incurred by the Properties for FY2003 and FY2004 as well as for each of the six months ended 30 June 2004 and 30 June 2005, which comprise additions of fixed assets, land use right and investment properties, are set forth in the following table:

FY2003	FY2004	Six months ended 30 June	
		2004	2005
(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
256.2 ⁽¹⁾	3.1	0.2	59.6 ⁽²⁾

Notes:

- (1) This amount was mainly attributable to the construction costs of Fortune Plaza and Victory Plaza amounting to HK\$247.7 million.
- (2) Of this amount, approximately HK\$53.0 million was payment of land grant premium and the relevant deed tax (3.0%) for the White Horse Units in June 2005.

MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INDEBTEDNESS

Borrowings

As at 30 June 2005, the Properties had no outstanding borrowings.

Contingent liabilities

As at 30 June 2005, the Properties had no significant contingent liabilities.

Capital commitments

As at 30 June 2005, the Properties had no significant capital commitments.

Collateral

As at 30 June 2005, certain of the Properties with an aggregate carrying value of approximately HK\$887,245,000 were pledged for bank loans obtained by a subsidiary of GZI. The pledge was subsequently released as a result of partial repayment of the bank loans and substitution thereof by other assets.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this Offering Circular, the Directors confirm that there has been no material adverse change in the financial or trading position of the Properties since 30 June 2005 and of the BVI Companies since 31 October 2005, the respective dates to which the Audited Financial Statements of the Properties and the Audited Financial Statements of the BVI Companies were made up.