APPENDICES

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AUDITORS' REPORT TO GZI REIT ASSET MANAGEMENT LIMITED
COMBINED FINANCIAL STATEMENTS OF THE PROPERTIES

We have audited the combined financial statements of the Properties (defined in note 1 to the combined financial statements) as at 31 December 2002, 2003 and 2004 and 30 June 2005 and for the years/periods then ended and reviewed the combined financial statements of the Properties for the six months ended 30 June 2004, as set out on pages I-3 to I-47.

These combined financial statements are prepared for the purpose of injection of the Properties into GZI Real Estate Investment Trust and in accordance with accounting principles generally accepted in Hong Kong. The combined financial statements, which include income statements, balance sheets, cash flow statements and notes, were prepared based on the accounting books and records of the subsidiaries of Guangzhou Investment Company Limited ("GZI") which owned and managed the Properties immediately prior to the divestment since the Properties were transferred to GZI on 20 December 2002. As there were no separate books and records maintained for each of the Properties on a stand alone basis, the combined financial statements have been prepared according to the basis of preparation and assumptions set out in note 2 to the combined financial statements, which include the following particular accounting treatments:

(1) Interest charges incurred at the central treasury of the Guangzhou City Construction & Development Co. Ltd ("GCCD") are not reflected in the combined financial statements as there were no direct bank borrowings for the GCCD Properties (defined in note 1); and

(2) Income tax expenses are reported to the relevant tax bureau on an entity basis by GCCD. As such, income tax expenses for GCCD Properties are calculated based on the tax rate applicable to the GCCD Properties as if they are a separate tax entity.

Respective responsibilities of directors of GZI and auditors

The directors of GZI are responsible for the preparation of the combined financial statements which give a true and fair view. In preparing combined financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those combined financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit for the period from 20 December 2002 to 31 December 2002, each of the two years ended 31 December 2003 and 2004 and the six months ended 30 June 2005 in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the combined financial statements. It also includes an assessment of the significant estimates and judgements made by the directors of GZI in the preparation of the combined financial statements, and of whether the accounting policies are appropriate to the circumstances of the Properties, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the combined financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the combined financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have reviewed the combined financial statements for the six months ended 30 June 2004 in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the directors of GZI and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the combined financial statements for the six months ended 30 June 2004.

Opinion

In our opinion the combined financial statements of the Properties give a true and fair view, on the basis as set out in note 2 to the combined financial statements, of the state of affairs of the Properties as at 31 December 2002, 2003 and 2004 and 30 June 2005 and the results and cash flows of the Properties for the period from 20 December 2002 to 31 December 2002, each of the two years ended 31 December 2003 and 2004 and for the six months ended 30 June 2005.

Based on our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the combined financial statements for the six months ended 30 June 2004.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 December 2005

Combined balance sheets

	Note	As at 31 December 2002 HK$'000	As at 31 December 2003 HK$'000	As at 31 December 2004 HK$'000	As at 30 June 2005 HK$'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	118,128	11,165	10,598	7,169
Land use rights	7	252,929	—	—	1,230
Investment properties	8	1,576,633	2,437,384	2,444,859	3,114,286
		1,947,690	2,448,549	2,455,457	3,122,685
Current assets					
Deferred assets	9	6,521	9,344	16,641	4,995
Prepayments, deposits and other receivables	10	3,653	4,350	5,400	6,093
Cash and cash equivalents	11	31,978	41,878	39,695	18,329
		42,152	55,572	61,736	29,417
Total assets		1,989,842	2,504,121	2,517,193	3,152,102
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	13	387,269	467,640	473,536	669,736
Rental deposits, non-current portion	12	23,715	27,170	10,051	15,097
		410,984	494,810	483,587	684,833
Current liabilities					
Rental deposits, accruals and other payables	12	10,291	18,758	43,841	43,873
Current tax payable		7,721	4,720	6,151	5,550
		18,012	23,478	49,992	49,423
Total liabilities		428,996	518,288	533,579	734,256
Net assets		1,560,846	1,985,833	1,983,614	2,417,846
Financed by:					
Accounts with Subsidiaries of GZI					
- Arising from accumulated profits		1,564	236,420	325,006	791,414
- Others		1,559,282	1,749,413	1,658,608	1,626,432
		1,560,846	1,985,833	1,983,614	2,417,846

On behalf of the Board

Ou Bingchang
Director

Chen Guangsong
Director

Combined income statements

	Note	**Period from 20 December 2002 to 31 December 2002**	**Year ended 31 December 2003**	**2004**	**Six months ended 30 June 2004**	**2005**
					(Unaudited)	
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — rental income and management fee income		3,274	129,395	172,080	79,610	92,644
Other gains — net	14	203	11,731	9,481	4,406	5,863
Direct outgoings	15	(1,113)	(40,076)	(51,010)	(19,766)	(27,047)
Other operating expenses		(30)	(2,927)	(2,799)	(1,495)	(2,446)
Fair value gains on investment properties	8	—	246,341	5,107	—	612,044
Profit before taxation		2,334	344,464	132,859	62,755	681,058
Income tax expenses	17	(770)	(109,608)	(44,273)	(20,709)	(214,650)
Profit for the year/period		1,564	234,856	88,586	42,046	466,408

Combined statements of changes in net assets

	Accounts with Subsidiaries of GZI		
	Arising from accumulated profits	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 20 December 2002	—	—	—
Acquisition of businesses by Subsidiaries of GZI	—	1,568,637	1,568,637
Profit for the period	1,564	—	1,564
Net advance to Subsidiaries of GZI	—	(9,355)	(9,355)
At 31 December 2002 and 1 January 2003	1,564	1,559,282	1,560,846
Profit for the year	234,856	—	234,856
Net advance from Subsidiaries of GZI	—	190,131	190,131
At 31 December 2003 and 1 January 2004	236,420	1,749,413	1,985,833
Profit for the year	88,586	—	88,586
Net advance to Subsidiaries of GZI	—	(90,805)	(90,805)
At 31 December 2004 and 1 January 2005	325,006	1,658,608	1,983,614
Profit for the period	466,408	—	466,408
Net advance to Subsidiaries of GZI	—	(32,176)	(32,176)
At 30 June 2005	791,414	1,626,432	2,417,846
At 1 January 2004	236,420	1,749,413	1,985,833
Profit for the period (Unaudited)	42,046	—	42,046
Net advance to Subsidiaries of GZI (Unaudited)	—	(34,210)	(34,210)
At 30 June 2004 (Unaudited)	278,466	1,715,203	1,993,669

Combined cash flow statements

	Note	Period from 20 December 2002 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2004	Six months ended 30 June 2005
					(Unaudited)	
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities						
Net cash inflow from operations	19(a)	8,966	107,919	128,009	51,042	88,047
China enterprise income tax paid by White Horse JV, White Horse Property Management Company and Xingcheng		—	(22,117)	(20,911)	(9,744)	(14,250)
China enterprise income tax paid by GCCD		—	(10,121)	(16,035)	(8,409)	(4,801)
Net cash inflow from operating activities		8,966	75,681	91,063	32,889	68,996
Cash flows from investing activities						
Acquisition of businesses by Subsidiaries of GZI, recognised in the Accounts with Subsidiaries of GZI	19(b)	(1,568,637)	—	—	—	—
Acquisition of businesses by Subsidiaries of GZI, net of cash acquired	19(b)	32,344	—	—	—	—
Addition of property, plant and equipment		—	(253,028)	(722)	(191)	(3,891)
Proceeds from sale of property, plant and equipment		—	—	—	—	617
Addition of investment properties		—	(3,154)	(2,368)	—	(54,526)
Addition of land use right		—	—	—	—	(1,230)
Interest received		23	270	649	263	844
Net cash inflow/(outflow) from investing activities		(1,536,270)	(255,912)	(2,441)	72	(58,186)
		(1,527,304)	(180,231)	88,622	32,961	10,810
Net advances from/(to) Subsidiaries of GZI		1,559,282	190,131	(90,805)	(34,210)	(32,176)
Increase/(decrease) in cash and cash equivalents	11	31,978	9,900	(2,183)	(1,249)	(21,366)

	Note	Period from 20 December 2002 to 31 December 2002	Year ended 31 December 2003	2004	Six months ended 30 June 2004	2005
					(Unaudited)	
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balances at beginning of year/period						
— Cash and cash equivalents		—	31,978	41,878	41,878	39,695
— Accounts with Subsidiaries of GZI		—	(1,559,282)	(1,749,413)	(1,749,413)	(1,658,608)
Balances at end of year/period						
— Cash and cash equivalents		31,978	41,878	39,695	40,629	18,329
— Accounts with Subsidiaries of GZI		(1,559,282)	(1,749,413)	(1,658,608)	(1,715,203)	(1,626,432)

COMBINED FINANCIAL STATEMENTS OF THE PROPERTIES

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1 General information

GZI Real Estate Investment Trust ("GZI REIT") was established by Guangzhou Investment Company Limited ("GZI") for the purposes of divesting the commercial property operations comprising certain units in White Horse Building, Fortune Plaza, City Development Plaza and Victory Plaza located in Guangzhou, Guangdong Province, Mainland China (hereinafter collectively referred to as the "Properties") (the "Divestment") and for the purposes of the listing on The Stock Exchange of Hong Kong Limited pursuant to the Code on Real Estate Investment Trusts. These combined financial statements have been prepared by the directors of GZI to present the results and cash flows of the Properties for the period from 20 December 2002 to 31 December 2002, each of the two years ended 31 December 2003 and 2004 and for the six months ended 30 June 2004 and 2005 (the "Relevant Periods") and their financial position as at 31 December 2002, 2003 and 2004 and 30 June 2005. Details of the basis of and assumptions used for the combined financial statements of the Properties have been set out in note 2 below.

During the Relevant Periods, Fortune Plaza, City Development Plaza and Victory Plaza were owned and managed by Guangzhou City Construction & Development Co. Ltd. ("GCCD"). These properties are collectively referred to as "GCCD Properties". The White Horse Building consists of nine strata units (a lower ground level and 2nd to 9th storeys) and a basement comprising a car park. Before 30 June 2005, certain portion of the lower ground level, the 2nd to 4th and the 6th to 9th storeys were owned by Guangzhou White Horse Clothings Market Ltd. ("White Horse JV") and the 5th storey and the car park were owned by Guangzhou Xingcheng Enterprise Development Ltd. ("Xingcheng"). On 30 June 2005, White Horse JV acquired the 5th storey and the cark park from Xingcheng and as a result, certain portion of the lower ground level, the 2nd to 9th storeys and the car park of White Horse Building was owned by White Horse JV and the land use rights in respect of the 5th storey and car park were transferred to White Horse JV on 15 July 2005. For the purposes of the Divestment, certain portion of the lower ground level, the 2nd to 9th storeys will be injected into GZI REIT. During the Relevant Periods, the White Horse Building was managed by Guangzhou White Horse Property Management Co Ltd. ("White Horse Property Management Company"). GCCD, White Horse JV, White Horse Property Management Company and Xingcheng are Subsidiaries of GZI and are collectively referred to as "Subsidiaries of GZI". Before 20 December 2002, the Properties were owned by state-owned enterprises and the operations and the ownership of the Properties were transferred to GZI on 20 December 2002.

The following transactions took place in connection with the Divestment pursuant to various agreements between the relevant parties as mentioned below:

(i) Four special purpose vehicles, incorporated in the British Virgin Islands and established on 20 September 2001, namely Partat Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited (collectively referred to as the "BVI Companies") acquired the Properties for the purposes of Divestment. Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited have become the beneficial owners of certain units of Fortune Plaza, City Development Plaza and Victory

Plaza, respectively, since 1 September 2005; while Partat Investment Limited has become the beneficial owner of certain units of White Horse Building since 19 October 2005. Assets or liabilities transferred to the BVI Companies comprises certain of the property, plant and equipment, investment properties and rental deposits;

(ii) King Profit Holdings Limited (which is in the process of changing its name to GZI REIT (Holdings) 2005 Company Limited) (the "Holdco") was set up on 11 November 2005 which was in turn a wholly owned subsidiary of GZI REIT;

(iii) On 7 December 2005, the shares of the BVI Companies were transferred by GZI to GZI REIT. Holdco and GZI REIT have since become the immediate holding company and the ultimate holding company, respectively, of the BVI Companies.

2 Basis of preparation and assumptions

No separate books and records were maintained for each of the Properties, as they formed part of the business operations of the Subsidiaries of GZI. These combined financial statements, which include income statements, balance sheets, cash flow statements and the notes, were prepared based on the accounting books and records of the Subsidiaries of GZI which owned and managed the Properties immediately prior to the Divestment since the Properties were transferred to GZI on 20 December 2002. These combined financial statements of the Properties have been prepared on the following basis and assumptions in order to present the results of operations and financial position of the Properties as if they were operated on a stand alone basis at the beginning of the earliest period presented:

The GCCD Properties formed part of the business operations of GCCD. Only account balances directly attributable to these properties are included in the combined financial statements. These account balances include investment properties, deferred assets, accounts receivable, deposits received from tenants, receipts in advance, rental income, management fee income and other directly attributable expenses.

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 are dealt with in the current account with GCCD. Interest charges incurred at the central treasury of the GCCD are not reflected in the combined financial statements as there were no direct bank borrowings for the GCCD Properties. Income tax expenses are reported to the relevant tax bureau on an entity basis by GCCD. As such, income tax expenses for GCCD Properties are calculated based on the tax rate applicable to the GCCD Properties as if they are a separate tax entity.

The business operations of White Horse JV, White Horse Property Management Company and Xingcheng are the ownership and management of White Horse Building and investment holding. All the account balances of these companies attributable to certain units of White Horse Building are included in the combined financial statements. Other account balances of these companies which are not directly attributable to White Horse Building are captured in the net current account balances with White Horse JV, White Horse Property Management Company and Xingcheng.

The treasury and cash disbursement functions of the GCCD Properties are centrally administered by GCCD. Cash flows including receipt of rental income, settlement of expense payable and the acquisition of assets are handled by GCCD centrally and therefore shown as movements in the net current account balance with GCCD in the combined financial statements.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the combined financial statements are set out below. These policies have been consistently applied to all the years/periods presented, unless otherwise stated.

The combined financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). HKFRS 1, "First-time Adoption of the Hong Kong Institute of Certified Public Accountants", has been applied in preparing these combined financial statements. The combined financial statements are the first set of financial statements prepared in accordance with HKFRS. No combined financial statements of the Properties have been prepared with accounting principles generally accepted in other jurisdictions.

In preparing these combined financial statements in accordance with HKFRS 1, the Properties has applied all the mandatory exceptions but has not applied any of the optional exemptions from full retrospective application of HKFRS.

The combined financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value. In preparing the combined financial statements in conformity with HKFRS, the directors of GZI have adopted all the new and revised HKFRS with effective date from 1 January 2005, which are relevant to its operation with effect from 20 December 2002.

The Properties have not early adopted the following standards and interpretations which have been issued but are not yet effective but the Properties will adopt these new HKFRS once they become effective:

(i) HKAS 1 Amendment, Presentation of financial statements - capital disclosures;

(ii) HKFRS 7, Financial instruments: disclosures;

(iii) HKAS 39 Amendment, Cash flow hedge accounting of forecast intragroup transactions;

(iv) HKAS 39 Amendment, The fair value option;

(v) HKAS 39 and HKFRS 4 Amendments, Financial guarantee contracts;

(vi) HKFRS 1 and HKFRS 6 Amendments, First-time adoption of Hong Kong Financial Reporting Standards and Exploration for and evaluation of mineral resources;

(vii) HKFRS 6, Exploration for and evaluation of mineral resources;

(viii) HKFRS-Int 4, Determining whether an arrangement contains a lease;

(ix) HKFRS-Int 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds;

(x) HK(IFRIC)-Int 6, Liabilities arising from participating in a specific market - waste electrical and electronic equipment; and

(xi) HKAS 19 Amendment, Employee benefits - Actuarial gains and losses, group plans and disclosures.

The adoption of such Standards or Interpretations will not result in substantial changes to the Properties' accounting policies.

The preparation of the combined financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Properties' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial statements, are disclosed in Note 5.

(a) *Property, plant and equipment*

(i) *Construction in progress*

Construction in progress are properties on which construction work and development have not been completed. These properties are carried at cost which comprises costs of construction, amounts capitalised in respect of amortisation of land use rights and other direct costs attributable to the development during the construction period and up to the date of completion of construction less any accumulated impairment losses. On completion, the properties are transferred to investment properties at fair value. Any difference between the fair value of the investment property and its carrying amount at the date of transfer is recognised in the combined income statements.

(ii) *Other property, plant and equipment*

Other property, plant and equipment, comprising other completed properties, leasehold improvements, furniture, fixtures and office equipment and motor vehicles are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Properties and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the combined income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Other properties	30 years
Leasehold improvements, furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(b) *Translation of foreign currencies*

Transactions in foreign currencies are translated into Renminbi, the functional currency of each of the Properties, at exchange rates prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated to Renminbi, at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the combined income statement.

The combined financial statements are presented in Hong Kong dollars for the convenience of the financial statement readers. For the purpose of translating the combined financial statements from Renminbi to Hong Kong dollars, all assets and liabilities of the Properties are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date, and all income and expense items at the average applicable rates during the period. All resulting exchange differences are dealt with as movements of reserves.

(c) *Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Properties, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Properties use alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the combined financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Properties and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the combined income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the combined income statement.

(d) *Impairment of assets*

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(e) *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Properties will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the combined income statement.

(f) *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(g) ***Deferred income tax***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(h) ***Employee benefits***

(i) *Pension obligations*

The Properties' contributions to the defined contribution retirement schemes are expensed as incurred and reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Properties in an independently administered fund.

(ii) *Medical benefits*

The Properties' contributions to defined contribution medical benefit scheme are expensed as incurred.

(i) ***Provisions***

Provisions for environmental restoration and restructuring costs are recognised when: the Properties have a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(j) ***Rental deposits***

Rental deposits are financial liabilities with fixed or determinable repayments. They arise when the Properties enter into lease agreement directly with tenants. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current liabilities.

Rental deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. At initial recognition, the difference between the carrying amount of the financial liability and the actual consideration received are treated as initial premiums and recognised as rental income over the lease term, on a straight-line basis.

(k) *Revenue recognition*

Revenue comprises the fair value for the receipt of rental income. Revenue is recognised as follows:

(i) Operating lease rental income is recognised on a straight-line basis over lease period of the lease. When the Properties provide incentives to its tenants, the cost of incentives will be recognised over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and the operating lease rental recognised over the lease term is recognised as deferred assets.

(ii) Revenue from property management is recognised in the period in which the services are rendered.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Properties reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(l) *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the combined income statement on a straight-line basis over the period of the lease.

Prepayments of land use rights are classified as land use rights under non-current assets. Amortisation of the prepaid land use rights over the lease terms is recognised in the combined income statements if there is no development on the land. Amortisation of the prepaid land use rights over the lease terms is capitalised in construction in progress if the land is under development. On completion, property interest held under an operating lease is classified as an investment property.

(m) *Segment reporting*

A business segment is an individual investment property engaged in earning rental income and management fee income that are subject to risks and returns that are different from those of other business segments.

Segment assets comprise of property, plant and equipment, land use rights, investment properties, deferred assets, prepayment, deposits and other receivables and operating cash and cash equivalents.

Segment liabilities comprise of rental deposits, accruals and other payables, current tax payable and deferred tax liabilities.

4 Financial risk management

(a) *Financial risk factors*

The Properties' activities expose it to a variety of financial risks: price risk, credit risk and liquidity risk. The Properties' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Properties' financial performance.

(i) *Price risk*

The Properties are exposed to property price and market rental risk because investment properties are carried at fair value. Any change in fair values is recognised in the combined income statements.

(ii) *Credit risk*

The Properties have no significant concentrations of credit risk. The carrying amount of trade receivables included in the combined balance sheets represents the Properties' maximum exposure to credit risk in relation to its financial assets. The Properties have policies in place to ensure that receipt of rental income from customers with an appropriate credit history and the Properties perform periodic credit evaluations of its customers. The directors of GZI are of the opinion that adequate provision for uncollectible trade receivables has been made in the accounts, based on the Properties' historical experience in collection of trade receivables.

(iii) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the treasury function of the Properties aims to maintain flexibility in funding by keeping committed credit lines available.

(b) *Fair value estimation*

The carrying amounts of the Properties' financial assets including cash and cash equivalents, deferred assets, prepayments, deposits and other receivables and financial liabilities including accruals and other payables approximate their fair values due to their short maturities.

The nominal value less any estimated credit adjustments of financial assets and liabilities with a maturity of less than one year, if any, are approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Properties for similar financial instruments.

5 Critical accounting estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors of GZI make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the directors of GZI determine the amount within a range of reasonable fair value estimates. In making its judgement, the directors of GZI considers information from a variety of sources including:

i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) 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.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The directors of GZI uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the directors of GZI and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

6 Property, plant and equipment

	Construction in progress HK$'000	Other properties HK$'000	Leasehold improvements, furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Period from 20 December 2002 to 31 December 2002					
Acquisition of businesses by Subsidiaries of GZI	110,467	1,871	5,402	274	118,014
Amortisation of land use rights	155	—	—	—	155
Depreciation	—	(3)	(33)	(5)	(41)
Closing net book amount	110,622	1,868	5,369	269	118,128
At 31 December 2002					
Cost	110,622	1,871	5,402	274	118,169
Accumulated depreciation	—	(3)	(33)	(5)	(41)
Net book amount	110,622	1,868	5,369	269	118,128
Year ended 31 December 2003					
Opening net book amount	110,622	1,868	5,369	269	118,128
Additions	247,705	—	4,940	383	253,028
Amortisation of land use rights	3,476	—	—	—	3,476
Depreciation	—	(93)	(1,399)	(172)	(1,664)
Transfers to investment properties upon completion	(361,803)	—	—	—	(361,803)
Closing net book amount	—	1,775	8,910	480	11,165
At 31 December 2003					
Cost	—	1,871	10,342	657	12,870
Accumulated depreciation	—	(96)	(1,432)	(177)	(1,705)
Net book amount	—	1,775	8,910	480	11,165

	Other properties *HK$'000*	Leasehold improvements, furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2004				
Opening net book amount	1,775	8,910	480	11,165
Additions	—	722	—	722
Disposals	—	(4)	—	(4)
Depreciation	(93)	(1,064)	(128)	(1,285)
Closing net book amount	1,682	8,564	352	10,598
At 31 December 2004				
Cost	1,871	11,060	657	13,588
Accumulated depreciation	(189)	(2,496)	(305)	(2,990)
Net book amount	1,682	8,564	352	10,598
Six months ended 30 June 2005				
Opening net book amount	1,682	8,564	352	10,598
Additions	—	3,573	318	3,891
Disposals	—	(3,348)	(317)	(3,665)
Transfers to investment properties	—	(2,857)	—	(2,857)
Depreciation	(47)	(529)	(35)	(611)
Provision for impairment	—	(187)	—	(187)
Closing net book amount	1,635	5,216	318	7,169
At 30 June 2005				
Cost	1,871	8,428	658	10,957
Accumulated depreciation	(236)	(3,025)	(340)	(3,601)
Provision for impairment	—	(187)	—	(187)
Net book amount	1,635	5,216	318	7,169

	Other properties	Leasehold improvements, furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2004 (Unaudited)				
Opening net book amount	1,775	8,910	480	11,165
Additions (Unaudited)	—	191	—	191
Disposals (Unaudited)	—	(2,033)	—	(2,033)
Depreciation (Unaudited)	(47)	(577)	(64)	(688)
Closing net book amount (Unaudited)	1,728	6,491	416	8,635
At 30 June 2004 (Unaudited)				
Cost (Unaudited)	1,871	8,500	657	11,028
Accumulated depreciation (Unaudited)	(143)	(2,009)	(241)	(2,393)
Net book amount (Unaudited)	1,728	6,491	416	8,635

7 Land use rights

The Properties' interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
In Mainland China, held on:				
Leases of 40 and 50 years, expiring from 2047 through 2055	252,929	—	—	1,230

	Period from 20 December 2002 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2004 (Unaudited)	Six months ended 30 June 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year/period	—	252,929	—	—	—
Acquisition of businesses by Subsidiaries of GZI	253,084	—	—	—	—
Additions	—	—	—	—	1,230
Amortisations	(155)	(3,476)	—	—	—
Transfers to investment properties upon completion	—	(249,453)	—	—	—
End of the year/period	252,929	—	—	—	1,230

As at 31 December 2002, the balance represents prepaid operating lease payments for the land use rights of City Development Plaza and Victory Plaza included in construction in progress under property, plant and equipment. The amortisation during 2002 and 2003 were captialised in the construction in progress under property, plant and equipment. Upon completion of the construction work in 2003, the prepaid operating lease payments for the land use rights were transferred to investment properties.

As at 30 June 2005, the balance represents prepaid operating lease payments for the land use rights of certain units of White Horse Buildings included in other properties under property, plant and equipment. Before 7 June 2005, the land held for White Horse Building was a state-owned land use right, of which the owners of White Horse Building, White Horse JV and Xingcheng were required to pay a land use fee annually for the use of the state-owned land. On 7 June 2005, the state-owned land became a transferable land use right upon payment of land use rights premium by White Horse JV of HK$52,983,000. The prepaid operating leases attributable to the portion of other properties are included in the prepaid lease payments while the prepaid operating leases in respect of the investment properties are accounted for as investment properties.

8 Investment properties

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year/period	—	1,576,633	2,437,384	2,444,859
Acquisition of businesses by Subsidiaries of GZI	1,576,633	—	—	—
Additions	—	3,154	2,368	54,526
Transfer from property, plant and equipment and land use rights	—	611,256	—	2,857
Fair value gains on investment properties	—	246,341	5,107	612,044
End of the year/period	1,576,633	2,437,384	2,444,859	3,114,286

The investment properties were revalued at 31 December 2002, 2003, 2004 and 30 June 2005 by independent, professionally qualified valuers, Greater China Appraisal Limited. 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.

The investment properties were located in Mainland China under land use rights of 40 years to 50 years, expiring from 2047 through 2055.

In the combined income statement, direct operating expenses include approximately HK$7,400, HK$2,407,640, HK$5,573,570, HK$2,061,240 and HK$1,523,710, respectively, for the period from 20 December 2002 to 31 December 2002, years ended 31 December 2003 and 2004 and the six months ended June 2004 and 2005, relating to investment properties that were vacant.

At 31 December 2002, 2003 and 2004 and 30 June 2005, investments properties of approximately HK$1,339,617,000, HK$1,362,704,000, HK$1,852,774,000 and HK$877,245,000, respectively, were pledged as collateral for bank loans borrowed by a subsidiary of GZI.

9 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 monthly cash received from rental income under each tenancy agreement. Thus, monthly 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 lease periods. The temporary difference between the monthly rental income as set out in the lease agreements and accounting monthly rental income is reflected as deferred assets.

The GCCD Properties were subsequently transferred to the relevant BVI Companies on 1 September 2005. This has resulted in a change in the estimated useful life of the deferred assets to eight months in 2005 so that the deferred assets can be fully amortised upon the early termination date of the tenancy agreements. The change in the estimate useful life of deferred assets has been applied prospectively from 1 January 2005. The change has no effect for the period from 20 September 2002 to 31 December 2002, each of the two years ended 31 December 2003 and 2004. The effect is to decrease the rental income for the six months ended 30 June 2005 by HK$16,951,000. The deferred assets will be fully amortised on 31 August 2005.

10 Prepayments, deposits and other receivables

	As at 31 December			**As at 30 June**
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rental receivables	1,439	2,849	2,985	2,830
Advance to suppliers	—	104	167	—
Advance to employees	—	—	187	1,019
Prepaid tax	366	1,153	1,677	1,852
Deposit for construction works	1,604	—	—	7
Others	244	244	384	385
	3,653	4,350	5,400	6,093

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

11 Cash and cash equivalents

As at 31 December 2002, 2003 and 2004, and 30 June 2005, all cash and cash equivalents were 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 the Mainland China is subject to the exchange control restrictions imposed by the Chinese government.

All cash and cash equivalents are attributable to the operations of White Horse Building.

12 Rental deposits, accruals and other payables

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Rental receipt in advance	1,117	1,954	739	1,467
Accrued bonus	986	920	183	—
Rental deposits - current portion	4,116	9,846	36,327	32,527
Accrued welfare expenses	1,874	3,117	3,971	3,896
Other taxes payable	327	774	1,383	1,543
Others	1,871	2,147	1,238	4,440
	10,291	18,758	43,841	43,873

The carrying amounts of rental deposits, accruals and other payables approximate their fair value.

Non-current rental deposits were HK$23,715,000, HK$27,170,000, HK$10,051,000 and HK$15,097,000 as at 31 December 2002, 2003 and 2004 and 30 June 2005, respectively.

13 Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As at 31 December			As at 30 June
	2002	2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities	387,588	468,508	473,536	670,163
Deferred tax assets	(319)	(868)	—	(427)
	387,269	467,640	473,536	669,736

The movement on the deferred income tax account is as follows:

	Period from 20 December 2002 to 31 December	Year ended 31 December		Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year/period	—	387,269	467,640	467,640	473,536
Acquisition of businesses by Subsidiaries of GZI *(Note)*	387,269	—	—	—	—
Recognised in the combined income statements *(Note 17)*	—	80,371	5,896	1,754	196,200
End of the year/period	387,269	467,640	473,536	469,394	669,736

Note: Deferred taxation resulting from the acquisition of businesses by Subsidiaries of GZI (see Note 19 (b)) mainly represents the temporary difference arising between the fair value and the carrying value of the investment properties at acquisition date. The excess of fair value over the acquisition cost is recognised as negative goodwill on consolidation level of GZI. The deferred taxation directly attributable to the Properties is included in the combined financial statements.

The movement in deferred tax assets and liabilities during the year/period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities

	Revaluation of investment properties	Accelerated depreciation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*
At 20 December 2002	—	—	—
Acquisition of businesses by Subsidiaries of GZI	386,177	1,411	387,588
At 31 December 2002	386,177	1,411	387,588
Recognised in the combined income statements	77,227	3,693	80,920
At 31 December 2003	463,404	5,104	468,508
Recognised in the combined income statements	1,601	3,427	5,028
At 31 December 2004	465,005	8,531	473,536
Recognised in the combined income statements	191,876	4,751	196,627
At 30 June 2005	656,881	13,282	670,163
At 1 January 2004	463,404	5,104	468,508
Recognised in the combined income statements (Unaudited)	—	1,559	1,559
At 30 June 2004 (Unaudited)	463,404	6,663	470,067

Deferred tax assets

	Tax losses	Total
	HK$'000	*HK$'000*
At 20 December 2002	—	—
Acquisition of businesses by Subsidiaries of GZI	(319)	(319)
At 31 December 2002	(319)	(319)
Recognised in the combined income statements	(549)	(549)
At 31 December 2003	(868)	(868)
Recognised in the combined income statements	868	868
At 31 December 2004	—	—
Recognised in the combined income statements	(427)	(427)
At 30 June 2005	(427)	(427)
As at 1 January 2004	(868)	(868)
Recognised in the combined income statements (Unaudited)	195	195
As at 30 June 2004 (Unaudited)	(673)	(673)

All deferred tax (assets)/liabilities are to be recovered/settled after more than 12 months.

14 Other gains - net

	Period from 20 December 2002 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2004 (Unaudited)	Six months ended 30 June 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest income from bank deposits	23	270	649	263	844
Property related income					
— consultancy fee	—	1,482	626	346	225
— direct labour costs	—	432	17	11	5
— electricity charges	127	4,495	3,684	1,197	845
— administrative fees for transfer of leases	29	1,914	1,685	727	1,973
— other property related income	—	2,289	1,710	811	1,124
Forfeiture of rental deposits	—	383	1,144	497	79
Fair value gains on rental deposits, non current portion	—	475	266	557	401
Others	24	(9)	(300)	(3)	367
	203	11,731	9,481	4,406	5,863

15 Expenses by nature

Expenses included in direct outgoings are analysed as follows:

	Period from 20 December 2002 to 31 December	Year ended 31 December		Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property management fee	27	1,221	5,700	1,814	3,597
Promotional and agency expense	195	5,495	5,160	1,986	3,436
Fitting out and maintenance expenses	14	1,474	2,116	1,077	1,204
Business tax and flood prevention fee	184	8,632	10,715	4,972	7,056
Bad debt	—	430	611	167	443
Employment benefit expense *(Note 16)*	440	14,757	17,488	6,199	7,153
Depreciation expenses	41	1,664	1,285	688	611
Land use fees	—	79	79	5	—

16 Employee benefit expense

	Period from 20 December 2002 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2004 (Unaudited)	Six months ended 30 June 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Salaries and wages	301	10,128	10,202	3,884	4,609
Staff welfare	66	2,540	5,016	1,239	944
Pension and other insurance costs — defined contribution plans	73	2,089	2,270	1,076	1,600
	440	14,757	17,488	6,199	7,153

As stipulated by rules and regulations in Mainland China, the Properties contribute to a state-sponsored retirement plan for its employees in Mainland China, which is a defined contribution plan. For the period from 20 December 2002 to 31 December 2002, 2003 and 2004 and the six months ended 30 June 2004 and 2005, the Properties and their employees contribute approximately 17% to 20% and 8%, respectively, of the employee's salary as specified by the local government, and the Properties have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

17 Taxation

China enterprise income taxation is provided on the profits of the Properties in Mainland China in accordance with the Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises ("China Tax Law") at 33 per cent. The amount of taxation charged to the combined income statements represents:

	Period from 20 December 2002 to 31 December	Year ended 31 December		Six months ended 30 June	
	2002	2003	2004	2004	2005
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current income tax — China enterprise income tax	770	29,237	38,377	18,955	18,450
Deferred income tax *(Note 13)*	—	80,371	5,896	1,754	196,200
	770	109,608	44,273	20,709	214,650

The taxation on the Properties' profit before taxation differs from the theoretical amount that would arise using the enterprise income tax rate of Mainland China, the home country of the Properties as follows:

	Period from 20 December 2002 to 31 December	Year ended 31 December		Six months ended 30 June	
	2002	2003	2004	2004	2005
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit before taxation	2,334	344,464	132,859	62,755	681,058
Tax calculated at Mainland China enterprise income tax rate of 33 per cent	770	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	770	109,608	44,273	20,709	214,650

18 Segment information

At 31 December 2002, 2003, 2004 and 30 June 2004 and 2005, the operations of the Properties are separated into four business segments:

(1) White Horse Units

(2) Fortune Plaza Units

(3) City Development Plaza Units

(4) Victory Plaza Units

As all investment properties are located in Mainland China, there is no geographic segment for the Properties.

Segment results for the period from 20 December 2002 to 31 December 2002 are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — rental income and management fee income					
— Retail	2,338	—	179	—	2,517
— Office	39	—	718	—	757
	2,377	—	897	—	3,274
Other gains — net	203	—	—	—	203
Direct outgoings	(1,039)	—	(74)	—	(1,113)
Other operating expenses	—	—	(30)	—	(30)
Profit before taxation	1,541	—	793	—	2,334
Income tax expenses					(770)
Profit for the period					1,564

Other segment terms included in the combined financial statements are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	41	—	—	—	41
Non-cash expenses other than depreciation	—	—	—	—	—

Segment assets and liabilities at 31 December 2002 and other information for the period then ended are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,042,630	185,046	583,661	178,505	1,989,842
Total liabilities	301,751	10,120	111,777	5,348	428,996
Other information					
Capital expenditure					
— Property, plant and equipment *(Note 6)*	7,547	48,598	—	61,869	118,014
— Land use rights *(Note 7)*	—	136,448	—	116,636	253,084
— Investment properties *(Note 8)*	1,000,932	—	575,701	—	1,576,633

Segment results for the year ended 31 December 2003 are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — rental income and management fee income					
— Retail	88,263	—	6,754	7,580	102,597
— Office	1,491	150	25,157	—	26,798
	89,754	150	31,911	7,580	129,395
Other gains — net	11,154	10	476	91	11,731
Direct outgoings	(31,796)	(1,205)	(3,194)	(3,881)	(40,076)
Other operating expenses	—	(608)	(1,065)	(1,254)	(2,927)
Fair value gains/(losses) on investment properties	(3,154)	205,914	(27,103)	70,684	246,341
Profit before taxation	65,958	204,261	1,025	73,220	344,464
Income tax expenses					(109,608)
Profit for the year					234,856

Other segment terms included in the combined financial statements are as follows.

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	1,664	—	—	—	1,664
Non-cash expenses other than depreciation	—	—	—	—	—

Segment assets and liabilities at 31 December 2003 and other information for the period then ended are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,055,476	527,227	556,883	364,535	2,504,121
Total liabilities	304,308	74,729	104,224	35,027	518,288
Other information					
Capital expenditure					
— Property, plant and equipment *(Note 6)*	5,323	136,146	—	111,559	253,028
— Land use rights *(Note 7)*	—	—	—	—	—
— Investment properties *(Note 8)*	3,154	—	—	—	3,154
	8,477	136,146	—	111,559	256,182

Segment results for the year ended 31 December 2004 are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — rental income and management fee income					
— Retail	103,175	979	6,977	24,397	135,528
— Office	1,562	8,063	26,927	—	36,552
	104,737	9,042	33,904	24,397	172,080
Other gains — net	8,072	255	648	506	9,481
Direct outgoings	(35,309)	(6,623)	(4,187)	(4,891)	(51,010)
Other operating expenses	—	(705)	(730)	(1,364)	(2,799)
Fair value gains/(losses) on investment properties	53,705	8,411	(119,626)	62,617	5,107
Profit before taxation	131,205	10,380	(89,991)	81,265	132,859
Income tax expenses					(44,273)
Profit for the year					88,586

Other segment terms included in the combined financial statements are as follows.

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	1,285	—	—	—	1,285
Non-cash expenses other than depreciation	—	—	—	—	—

Segment assets and liabilities at 31 December 2004 and other information for the year then ended are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,109,713	538,169	437,336	431,975	2,517,193
Total liabilities	334,590	81,718	65,449	51,822	533,579
Other information					
Capital expenditure					
— Property, plant and equipment *(Note 6)*	722	—	—	—	722
— Land use rights *(Note 7)*	—	—	—	—	—
— Investment properties *(Note 8)*	2,368	—	—	—	2,368
	3,090	—	—	—	3,090

Segment results for the six months ended 30 June 2004 (Unaudited) are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — rental income and management fee income					
— Retail	47,329	—	3,489	12,497	63,315
— Office	783	1,917	13,595	—	16,295
	48,112	1,917	17,084	12,497	79,610
Other gains — net	3,662	35	203	506	4,406
Direct outgoings	(14,151)	(1,923)	(1,773)	(1,919)	(19,766)
Other operating expenses	—	(377)	(389)	(729)	(1,495)
Profit before taxation	37,623	(348)	15,125	10,355	62,755
Income tax expenses					(20,709)
Profit for the period					42,046

Other segment terms included in the combined financial statements are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	688	—	—	—	688
Non-cash expenses other than depreciation	—	—	—	—	—
Other information					
Capital expenditure					
— Property, plant and equipment *(Note 6)*	191	—	—	—	191
— Land use rights *(Note 7)*	—	—	—	—	—
— Investment properties *(Note 8)*	—	—	—	—	—
	191	—	—	—	191

Segment results for the six months ended 30 June 2005 are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — gross rental income and management fee income					
— Retail	65,105	5,350	3,317	12,846	86,618
— Office	811	7,984	14,182	—	22,977
	65,916	13,334	17,499	12,846	109,595
Accelerated amortision of deferred assets (Note)	—	(3,014)	(4,454)	(9,483)	(16,951)
Turnover — rental income and management fee income	65,916	10,320	13,045	3,363	92,644
Other gains — net	5,385	127	163	188	5,863
Direct outgoings	(16,050)	(4,546)	(2,787)	(3,664)	(27,047)
Other operating expenses	—	(1,026)	(748)	(672)	(2,446)
Fair value gains on investment properties	455,701	143,899	12,444	—	612,044
Profit before taxation	510,952	148,774	22,117	(785)	681,058
Income tax expenses					(214,650)
Profit for the period					466,408

Note: This represents the accelerated amortisation of deferred assets as a result of change in the estimated useful life of deferred assets as explained in Note 9.

Other segment terms included in the combined financial statements are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	611	—	—	—	611
Non-cash expenses other than depreciation	—	—	—	—	—

Segment assets and liabilities at 30 June 2005 and other information for the period then ended are as follows:

	White Horse Units	Fortune Plaza Units	City Development Plaza Units	Victory Plaza Units	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,600,080	681,371	444,602	426,049	3,152,102
Total liabilities	483,845	128,026	69,710	52,675	734,256
Other information					
Capital expenditure					
— Property, plant and equipment *(Note 6)*	3,891	—	—	—	3,891
— Land use rights *(Note 7)*	1,230	—	—	—	1,230
— Investment properties *(Note 8)*	54,526	—	—	—	54,526
	59,647	—	—	—	59,647

19 Notes to the cash flow statements

(a) *Net cash inflow from operations*

	Period from 20 December 2002 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004	Six months ended 30 June 2004	Six months ended 30 June 2005
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit before taxation	2,334	344,464	132,859	62,755	681,058
Depreciation charges of property, plant and equipment	41	1,664	1,285	688	611
Impairment loss of property, plant and equipment	—	—	—	—	187
Interest income	(23)	(270)	(649)	(263)	(844)
Fair value gains on investment properties	—	(246,341)	(5,107)	—	(612,044)
Loss on disposal of property, plant and equipment	—	—	4	2,033	3,048
Decrease/(increase) in deferred assets, prepayments, deposits and other receivables	1,317	(3,520)	(8,347)	(5,708)	10,953
Increase/(decrease) in rental deposits, accruals and other payables	5,297	11,922	7,964	(8,463)	5,078
Net cash inflow from operations	8,966	107,919	128,009	51,042	88,047

(b) *Acquisition of businesses by Subsidiaries of GZI*

On 20 December 2002, Subsidiaries of GZI acquired the investment properties and the related businesses from state-controlled entities (see note 1). The acquired businesses contributed all the revenues of the Properties for the period from 20 December 2002 to 31 December 2002, each of the two years ended 31 December 2003 and 2004 and each of the six months ended 30 June 2004 and 2005.

The assets and liabilities arising from the acquisition are as follows:

	HK$'000
Details of net assets acquired by Subsidiaries of GZI are as follows:	
Property, plant and equipment	118,014
Land use rights	253,084
Investment properties	1,576,633
Deferred assets, prepayments, deposits and other receivables	11,491
Cash and cash equivalents	32,344
Deferred tax liabilities	(387,269)
Rental deposits, accruals and other payables	(28,709)
Current tax payable	(6,951)
Total net assets acquired	1,568,637
Recognised in Accounts with Subsidiaries of GZI	1,568,637
Cash and cash equivalents in businesses acquired, representing cash inflow on acquisition	32,344

There were no acquisitions for each of the two years ended 31 December 2003 and 2004 and each of the six months ended 30 June 2004 and 2005.

20 Related-party transactions

(a) *Related parties*

The Properties are controlled by the Subsidiaries of GZI. The ultimate parent of the Subsidiaries of GZI is Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), a company incorporated in Hong Kong.

The table set forth below summarised the names of significant parties and nature of relationship with the Properties as at 30 June 2005.

Significant related party	**Relationship**
Guangzhou City Construction & Development Co. Ltd.	A subsidiary of GZI
Guangzhou City Construction & Development Decoration Ltd.	A subsidiary of GZI
Guangzhou Xingcheng Enterprise Development Ltd.	A subsidiary of GZI
Guangzhou Grandcity Automobile Services Co.	A subsidiary of GZI
Guangzhou Yicheng Property Management Ltd.	A subsidiary of GZI
Guangzhou City Construction and Development Xingye Property Agent Ltd.	A subsidiary of GZI
Guangzhou City Construction & Development Homecity Supermarket Ltd.	A subsidiary of GZI
State-controlled enterprises (see (c) below)	Related parties of the Properties

(b) *Transactions with related parties other than state-controlled enterprises*

	Period from 20 December 2002 to 31 December	**Year ended 31 December**		**Six months ended 30 June**	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Rental income received from subsidiaries of GZI	43	2,990	3,122	1,559	1,534

	Period from 20 December 2002 to 31 December	Year ended 31 December		Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property management fee to subsidiaries of GZI	27	1,211	5,700	1,814	3,597
Agency fee paid to subsidiaries of GZI	—	345	344	105	574
Compensation to a subsidiary of GZI	—	—	—	—	1,009

Note: All related party transactions were carried out at the terms agreed by the relevant parties.

At 31 December 2002, 2003 and 2004 and 30 June 2005, certain investments properties with an aggregate carrying amount of approximately HK$1,339,617,000, HK$1,362,704,000, HK$1,852,774,000 and HK$877,245,000, respectively, were pledged as collateral for bank loans borrowed by a subsidiary of GZI.

(c) *Transactions with state-controlled enterprises*

Under HKAS 24, business transactions between state-controlled enterprises controlled by Chinese government are within the scope related party transactions. Yue Xiu, the ultimate holding company of the subsidiaries controlling the Properties, is a state-controlled enterprise. There are no key business transactions with the state-controlled enterprises besides the following.

As at 31 December 2002, 2003 and 2004 and 30 June 2005, over 98 per cent, 94 per cent, 92 per cent and 68 per cent, respectively, of bank balances were with state-controlled banks.

For the period from 20 December 2002 to 31 December 2002, each of the two years ended 31 December 2003, 2004 and the six months ended 30 June 2004 and 2005, approximately 98 per cent, 96 per cent, 93 per cent, 96 per cent and 80 per cent, respectively, of the bank interest income were from state-controlled banks; approximately 1 per cent, 0.7 per cent, 0.4 per cent, 0.4 per cent and 0.4 per cent, respectively, of the rental income were from state-controlled enterprises.

(d) *Key management compensation*

There was no key management compensation for the period from 20 December 2002 to 31 December 2002, two years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005.

21 Future minimum rental payments receivable

At 31 December 2002, 2003 and 2004 and 30 June 2005, the Properties had future minimum rental payments receivable under non-cancellable leases as follows:

	As at 31 December			As at 30 June
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	114,360	140,078	193,248	163,120
Later than one year and not later than five years	230,930	182,313	131,023	212,063
Later than five years	8,989	26,921	44,074	37,905
	354,279	349,312	368,345	413,088

22 Subsequent events

(a) *Cost, management and financing structure*

Pursuant to the Reorganisation Deed, the equity interests in BVI Companies were transferred to Holdco, a wholly owned subsidiary of GZI REIT in December 2005. GZI REIT has entered into Property Management Agreements with GZI REIT Asset Management Limited (the "Manager"). Pursuant to these agreements, the Properties are to be managed by the Manager. In addition, on 7 December 2005, the BVI Companies, Holdco, Citibank, N.A., Hong Kong Branch, the Hong Kong and Shanghai Banking Corporation Limited and DBS Bank Ltd. have entered into a Facility Agreement in connection with a loan facility of US$165,000,000 with a maturity period of 3 years for the financing of the investment in the properties.

Subsequent to the completion of these agreements, the management, cost, financing 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 by subsidiaries of GZI in managing the Properties. Upon the completion of the Divestment, certain costs which were not previously incurred in the combined financial statements, including insurance expenses, management's fees, trustee's fees and interest expenses will be incurred.

(b) *Release of pledge of investment properties*

The pledge of certain investment properties with an aggregate carrying amount of approximately HK$877,245,000 for bank loans borrowed by a subsidiary of GZI as at 30 June 2005 was subsequently released as a result of repayment of bank loans and replacement of pledge by other assets.

(c) *Subsequent valuation on investment properties*

As at 30 September 2005, a valuation in relation to the investment properties was performed by Colliers International (Hong Kong) Ltd, an independent property valuer, amounting to HK$4,005,000,000.

(d) *Taxation status*

The Properties were transferred into the BVI Companies subsequent to 30 June 2005 as mentioned in Note 1. Upon acquisition of the Properties, the BVI Companies are subject to Mainland China withholding tax at the current rate of 10 per cent on gross rental income net of business taxes.

23 Approval of combined financial statements

The combined financial statements were approved by the directors of GZI on 12 December 2005.