PRICEWATERHOUSECOOPERS

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Central, Hong Kong

AUDITORS' REPORT TO THE DIRECTORS OF
GZI REIT ASSET MANAGEMENT LIMITED
COMBINED FINANCIAL STATEMENTS OF
PARTAT INVESTMENT LIMITED
MOON KING LIMITED
FULL ESTATES INVESTMENT LIMITED
KEEN OCEAN LIMITED
(companies incorporated in the British Virgin Islands with limited liability)

We have audited the combined financial statements of Partat Investment Limited, Moon King Limited, Full Estates Investment Limited and Keen Ocean Limited (hereinafter collectively referred to as "the BVI Companies") as at 31 October 2005 and for the ten months ended 31 October 2005 on pages II-3 to II-24 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors of Guangzhou Investment Company Limited ("GZI") and auditors

The directors of GZI are responsible for the preparation of 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 ten months ended 31 October 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 BVI Companies, 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.

Opinion

In our opinion the combined financial statements give a true and fair view of the state of affairs of the BVI Companies as at 31 October 2005 and of the BVI Companies' profit and cash flows for the ten months ended 31 October 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 December 2005

COMBINED BALANCE SHEETS
AS AT 31 OCTOBER 2005

	Note	31 October 2005 HK$'000	31 December 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	3,453	—
Investment properties	6	4,005,000	—
Deferred assets	9	3,031	—
		4,011,484	—
Current assets			
Trade receivables		1,586	—
Prepayments, deposits and other receivables		1,110	—
Cash and cash equivalents	7	12,653	—
		15,349	—
Total assets		4,026,833	—
EQUITY			
Capital and reserves attributable to the shareholder of the BVI Companies			
Share capital	8	—	—
Reserves		2,972,767	(70)
Total equity		2,972,767	(70)
LIABILITIES			
Non-current liabilities			
Rental deposits, non-current portion	10	14,359	—
Current liabilities			
Rental deposits, accruals and other payables	10	45,440	—
Due to fellow subsidiaries	15	994,267	70
		1,039,707	70
Total liabilities		1,054,066	70
Total equity and liabilities		4,026,833	—

On behalf of the Board

Ou Bingchang
Director

Chen Guangsong
Director

COMBINED INCOME STATEMENTS
FOR THE TEN MONTHS ENDED 31 OCTOBER 2005

	Note	Ten months ended 31 October 2005	For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004
		HK$'000	*HK$'000*
Turnover — rental income		22,455	—
Interest income		1	—
General and administrative expenses	11	(6,256)	(70)
Profit/(loss) before taxation		16,200	(70)
Income tax expenses	12	—	—
Profit/(loss) for the period		16,200	(70)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE TEN MONTHS ENDED 31 OCTOBER 2005

		Attributable to shareholder of the BVI Companies			
		Share capital	Shareholder's contribution	(Accumulated loss)/retained earnings	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Issue of share		—	—	—	—
Loss for the period		—	—	(70)	(70)
At 31 December 2004		—	—	(70)	(70)
Shareholder's contribution	14	—	2,956,637	—	2,956,637
Profit for the period		—	—	16,200	16,200
At 31 October 2005		—	2,956,637	16,130	2,972,767

COMBINED CASH FLOW STATEMENTS
FOR THE TEN MONTHS ENDED 31 OCTOBER 2005

	Note	Ten months ended 31 October 2005	For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004
		HK$'000	*HK$'000*
Cash flows from operations			
Net cash inflow generated from operations	13	12,652	—
Interest received		1	—
Net cash inflow from operating activities		12,653	—
Increase in cash and cash equivalents, representing cash and cash equivalents at period end date		12,653	—

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1 Basis of preparation

GZI Real Estate Investment Trust ("GZI REIT") was established by GZI for the purposes of divesting the commercial property operations comprising certain units (the "Divestment") 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") and for the purposes of the listing on The Stock Exchange of Hong Kong Limited pursuant to the Code on Real Estate Investment Trusts.

Full Estates Investment Limited, Keen Ocean Limited and Moon King Limited have become the beneficial owners of certain units of City Development Plaza, Victory Plaza and Fortune 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. The operations of the Properties were transferred from certain subsidiaries of GZI to the BVI Companies on the dates of transfer.

King Profit Holdings Limited (which is in the process of changing its name to GZI REIT (Holdings) 2005 Company Limited) (the "Holdco") has acquired the BVI Companies on 7 December 2005. Upon completion of the Divestment, Holdco became a wholly owned subsidiary of GZI REIT.

The combined financial statements of the BVI Companies have been presented on a combined basis to represent the combined state of affairs as at 31 October 2005, combined results and combined cash flows for the ten months ended 31 October 2005.

Details of the BVI Companies as at 31 October 2005 are as follows:

Name	Place and date of incorporation	Paid-in capital	Shareholding by the Holdco	Principal activities
Partat Investment Limited	British Virgin Islands 20 September 2001	US$1	100%	Leasing of commercial properties
Moon King Limited	British Virgin Islands 20 September 2001	US$1	100%	Leasing of commercial properties
Full Estates Investment Limited	British Virgin Islands 20 September 2001	US$1	100%	Leasing of commercial properties

Name	Place and date of incorporation	Paid-in capital	Shareholding by the Holdco	Principal activities
Keen Ocean Limited	British Virgin Islands 20 September 2001	US$1	100%	Leasing of commercial properties

As at the date of approval of these combined financial statements, the Holdco had direct interests in the above subsidiaries, all of which have substantially the same characteristics as Hong Kong incorporated private limited liability companies. The BVI Companies had been inactive since the date of incorporation until they acquired the investments properties from certain subsidiaries of GZI.

The combined financial statements of the BVI Companies 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 BVI Companies have been prepared with accounting principles generally accepted in other jurisdictions.

In preparing these combined financial statements in accordance with HKFRS 1, the BVI Companies 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 September 2001.

The BVI Companies have not early adopted the following standards and interpretations which have been issued but are not yet effective but the BVI Companies 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 BVI Companies' 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 BVI Companies' 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 4.

At 31 October 2005, there were net current liabilities of the BVI Companies of HK$1,024,358,000. GZI, the intermediate holding company, has confirmed its intention to provide continuing financial support to the BVI Companies so as to enable the BVI Companies to meet its liabilities as and when they fall due and continue their operations for the foreseeable future. Consequently, the directors of GZI have prepared the combined financial statements on a going concern basis.

2 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 periods presented, unless otherwise stated.

(a) *Basis of combination*

The combined financial statements included the financial statements of the BVI Companies. All significant intercompany transactions and balances between the BVI Companies are eliminated on combination.

(b) *Business acquisition*

The purchase method of accounting is used to account for the acquisition of business operation by the BVI Companies. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the BVI Companies' share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the business operation acquired, the difference is recognised in the combined income statements.

(c) *Translation of foreign currencies*

Transactions in foreign currencies are translated into Renminbi, the function currency of each of the BVI Companies, 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 statements.

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 BVI Companies 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) *Property, plant and equipment*

Property, plant and equipment 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 BVI Companies and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the combined income statements 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:

Machinery and tools	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.

(e) *Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the BVI Companies, 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 BVI Companies 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 BVI Companies and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the combined income statements during the financial period in which they are incurred.

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

(f) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the BVI Companies' share of the net identifiable assets of the acquired business operations at the date of acquisition. Goodwill on acquisitions of business operation is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of the operation include the carrying amount of the goodwill relating to the operation sold.

(g) *Impairment of assets*

Assets that have an indefinite useful life are not subject to amortization, which are at least tested for impairment and are revised for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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).

(h) *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 BVI Companies 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 statements.

(i) *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.

(j) *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. Bank overdrafts are shown within borrowings in current liabilities on the combined balance sheets.

(k) *Provisions*

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the BVI Companies 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. Restructuring provisions comprise lease termination penalties and employee termination payments. 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.

(l) *Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the combined income statement over the period of the borrowings using the effective interest method.

(m) ***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 BVI Companies provide incentives to its tenants, the cost of incentives will be recognized over the lease term, on a straight-line basis, as a reduction of rental income. The difference between the gross receipt of rental and operating lease rental recognised over the lease term is recognised as deferred assets.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the BVI Companies reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues 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.

3 Financial risk management

(a) ***Financial risk factors***

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

(i) *Price risk*

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

(ii) *Foreign exchange risk*

The BVI Companies operate in Mainland China ("China") with most of the transactions denominated in Renminbi. The BVI Companies are exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars as certain of the general and administrative expenses are settled in Hong Kong dollars. It has not hedged its foreign exchange rate risk.

In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the China government.

(iii) *Credit risk*

The BVI Companies have no significant concentrations of credit risk. The carrying amount of trade receivables included in the combined balance sheets represents the BVI Companies' maximum exposure to credit risk in relation to its financial assets. The BVI Companies have policies in place to ensure that receipt of rental income from customers with an appropriate credit history and the BVI Companies 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 combined financial statements, based on the BVI Companies' historical experience in collection of trade receivables.

(b) ***Accounting for derivative financial instruments and hedging activities***

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The BVI Companies designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The BVI Companies documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The BVI Companies also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the combined income statement.

Amounts accumulated in equity are recycled in the combined income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the combined income statements. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the combined income statements.

During the period, the BVI Companies did not enter into derivative contract as cash flow hedge.

(ii) *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the combined income statements.

(c) *Fair value estimation*

The carrying amounts of the BVI Companies' financial assets including cash and cash equivalents, trade and other receivables and amounts due from fellow subsidiaries and financial liabilities including accruals and other payables and amounts due to fellow subsidiaries approximate their fair values due to their short maturities.

4 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 consider information from a variety of sources including:

a) 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.

b) 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

c) 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 use 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; 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.

5 Property, plant and equipment

	Machinery and tools
	HK$'000
Ten months ended 31 October 2005	
Opening net book amount	—
Addition	3,512
Depreciation	(59)
Closing net book amount	3,453
At 31 October 2005	
Cost	3,512
Accumulated depreciation	(59)
Net book amount	3,453

6 Investment properties

	31 October 2005
	HK$'000
Beginning of the period	—
Addition	4,005,000
End of the period	4,005,000

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

The investment properties were revalued at 30 September 2005 by independent, professionally qualified valuers, Colliers International (Hong Kong) Ltd. 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. Directors of GZI consider that there is no material change in the fair value of these investment properties between 1 October 2005 and 31 October 2005.

In the combined income statements, direct operating expenses include HK$436,000 (2004: Nil) relating to investment properties that were vacant.

7 Cash and cash equivalents

As at 31 October 2005, all the cash and cash equivalents of the BVI Companies 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 China is subject to exchange control restrictions imposed by the Chinese government.

8 Share capital

The combined share capital of the BVI Companies as at 31 October 2005 represented the aggregate amount of the issued and paid up capital of the BVI Companies at that date.

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 in the lease agreements and accounting monthly rental income is reflected as deferred assets.

10 Rental deposits, accruals and other payables

	31October 2005	31 December 2004
	HK$'000	*HK$'000*
Rental deposits, current portion	40,161	—
Receipt in advance	1,736	—
Provision for withholding tax	1,863	—
Provision for business tax and flood prevention fee	833	—
Others	847	—
	45,440	—

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

Non-current rental deposits were HK$14,359,000 (2004: Nil) as at 31 October 2005.

11 Expenses by nature

Expenses included in general and administrative expenses are analyzed as follows:

	Ten months ended 31 October 2005	For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004
	HK$'000	*HK$'000*
Property management fee	860	—
Urban real estate tax	1,439	—
Business tax and flood prevention fee	1,143	—
Withholding tax *(Note)*	2,133	—
Depreciation expenses	59	—

Note: Withholding tax of China is calculated based on the rental income (net of business tax paid) and interest income at a rate of 10 per cent.

12 Income tax expenses

No China enterprise income tax has been provided as the BVI companies have no assessable profit in China.

No Hong Kong profits tax has been provided as the BVI Companies have no assessable profit in Hong Kong.

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

13 Notes to the cash flow statements

Net cash inflow from operations

	Ten months ended 31 October 2005	For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004
	HK$'000	*HK$'000*
Profit/(loss) before taxation	16,200	(70)
Depreciation expenses	59	—
Interest income	(1)	—
Increase in deferred assets	(3,031)	—
Increase in trade receivables, prepayments, deposits and other receivables	(2,696)	—
Increase in rental deposits, accruals and other payables, including amounts due to fellow subsidiaries	2,121	70
Net cash inflow from operations	12,652	—

14 Acquisition of businesses

On 1 September 2005 and 19 October 2005, the BVI Companies acquired the investment properties and the related businesses from certain subsidiaries of GZI (see note 1). The acquired business contributed all the revenues of the BVI Companies for the ten months ended 31 October 2005.

Details of net assets acquired and shareholder's contribution are as follows:

	HK$'000
Purchase consideration	
Current accounts with fellow subsidiaries	997,705
Fair value of net assets acquired — shown as below	(3,954,342)
Shareholder's contribution	(2,956,637)

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

	HK$'000
Property, plant and equipment	3,512
Investment properties *(Note)*	4,005,000
Rental deposits	(54,170)
Net assets acquired	3,954,342

Note: The investment properties were revalued at 30 September 2005 by independent, professional qualified valuers, Colliers International (Hong Kong) Ltd. Directors of GZI consider that there is no material change in the fair value of these investment properties between the acquisition dates and the valuation date.

There were no acquisitions for the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004.

15 Related-party transactions

The BVI Companies are wholly owned subsidiaries of GZI. The ultimate parent of the BVI Companies is Yue Xiu Enterprises (Holdings) Limited ("Yue Xiu"), a company incorporated in Hong Kong.

The table set forth below summarized the names of significant parties and nature of relationship with the BVI Companies as at 31 October 2005.

Significant related party	**Relationship with the BVI Companies**
Guangzhou City Construction & Development Ltd. ("GCCD")	A fellow subsidiary
Guangzhou White Horse Clothings Market Ltd. ("White Horse JV")	A fellow subsidiary
Guangzhou Yicheng Property Management Ltd. ("Yicheng")	A fellow subsidiary
State-controlled enterprises (see (d) below)	Related parties of the BVI Companies

The following transactions and balances were carried out with related parties:

(a) ***Transaction with related parties other than state-controlled enterprises***

	Ten months ended 31 October 2005	**For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004**
	HK$'000	*HK$'000*
Management fee paid to Yicheng	860	—

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

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

	31 October 2005	31 December 2004
	HK$'000	*HK$'000*
Balance with GCCD		
Amount due to GCCD	811,228	52
Balance with White Horse JV		
Amount due to White Horse JV	181,910	18
Balance with Yicheng		
Amount due to Yicheng	1,129	—

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

(c) ***Key management compensation***

There was no key management compensation for the ten months ended 31 October 2005 (For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004: Nil).

(d) ***Transactions with state-controlled enterprises***

Under HKAS 24, business transactions between state-controlled enterprises controlled by Chinese government are within the scope of related party transactions. Yue Xiu, the ultimate holding company of the BVI Companies, is a state-controlled enterprise. The BVI Companies' key business transactions with other state-controlled enterprises are primarily related to banking activities. The related party transactions with other state-controlled enterprises were conducted in the ordinary course of business.

As at 31 October 2005, all the bank balances were with state-controlled banks (2004: Nil).

For the ten months ended 31 October 2005, all the bank interest income was from state-controlled banks (For the period from 20 September 2001 (date of incorporation of the BVI Companies) to 31 December 2004: Nil).

16 Future minimum rental payments receivable

At 31 October 2005, the BVI Companies had future minimum rental payments receivable under non-cancellable leases as follows:

	31 October 2005	31 December 2004
	HK'000	*HK$'000*
Not later than one year	128,719	—
Later than one year and not later than five years	206,493	—
Later than five years	36,374	—
	371,586	—

17 Events after balance sheet date

(a) *Bank borrowing and swap agreement*

On 7 December 2005, the BVI Companies, Holdco and Citibank, N.A., Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited and DBS Bank Ltd. (collectively "Lending Banks") entered into a Facility Agreement in connection with a loan facility of US$165,000,000 with a maturity period of 3 years for the financing of the investment in the Properties. The BVI Companies also entered into a US$/RMB non-deliverable swap facility with the Lending Banks. Pursuant to this arrangement, the interest rate under the above loan facility is fixed at approximately 3.2% per annum for the entire three year tenure of the loan under the facility.

(b) *Business combination*

On 7 December 2005, the BVI Companies were acquired by Holdco. Upon completion of the Divestment, the BVI Companies became wholly owned subsidiaries of GZI REIT.

(c) *Release of amounts due to fellow subsidiaries*

Pursuant to the Reorganisation Deed entered between Holdco, GZI REIT Asset Management Limited and GZI, the amount due to fellow subsidiaries are subsequently released by these fellow subsidiaries.

18 Approval of combined financial statements

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