

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8097 Facsimile: 3608 6132

**HONG KONG RESEARCH****12<sup>th</sup> December 2005****Main Board Listing - Research**

越秀房地產投資信託基金

**GZI Real Estate Investment Trust [Stock Code: 0405]****Joint Global Coordinators**: The Hong Kong and Shanghai Banking Corporation  
Citigroup Global Markets Asia Limited  
DBS Bank Ltd.**Listing Agent**

The Hong Kong and Shanghai Banking Corporation

**Sector** : Financials**Business** : Real estate investment trust (REIT)**Total share offer:** 583,000,000 units  
(49.8% of the enlarged share capital)**Public Offer:** 60,000,000 shares (10.29%)**Placing:** 523,000,000 shares (89.71%)**Greenshoe:** 87,450,000 shares (15.00%)**Price:** HK\$2.850 – HK\$3.075 per unit**Market Cap.:** HK\$3,336 million – HK\$3,560 million**FY2006E Distribution Yield:** 6.54%-7.05%**Adjusted NTA per unit:** HK\$2.775**Manager:** GZI REIT Asset Management Limited**HK Public Offer period:**12<sup>th</sup> December 2005 – 15<sup>th</sup> December 2005**Receiving bank:** HSBC

BOC (Hong Kong) Limited

Bank of Communications

**Unit registrar:** Tricor Investor Services Limited**Listing date:** 21<sup>st</sup> December 2005**Business of GZI REIT**

GZI REIT is a real estate investment trust established by the Guangzhou Investment Company Limited (0123). Its primary investment objective will be to produce stable and sustainable distributions to Unit-holders and to achieve long-term growth in net asset value per unit via investment in office, retail and other commercial properties, initially in Guangdong province in the PRC.

The portfolio of GZI REIT will comprise, upon the completion of the offering, four commercial properties located in Guangzhou. As of 30<sup>th</sup> September 2005, the properties comprised 89,588.1 sq.m. of Gross Floor Area used for wholesale or retail activities and 71,062.9 sq.m. of Gross Floor Area used as office or warehouse space. The wholesale/ retail component of the properties had an average occupancy rate of 93.1% while the office/warehouse component of the properties had an average occupancy rate of 77.5%

For the forecast year 2006, Unit-holders will be paid, in the absence of unforeseen circumstances, total distributions per Unit of not less than HK\$0.201, representing a distribution yield of 6.54% based on the maximum offer price and 7.05% based on the minimum offer price.

**Major Unit-holders after Listing** (Assuming the over-allotment option is not exercised)

Guangzhou Municipal People's Government [Interest via Yue Xiu]

50.2%

50.2%

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

### Use of Proceeds

Total proceeds from the offer are estimated to be HK\$1,661.6 million (based on an issue price of HK\$2.850) and HK\$1,792.7 million (based on an issue price of HK\$3.075).

(Assuming the over-allotment option is not exercised.)

The total proceeds, along with the initial drawdown of loan facility of HK\$1,287.0 million, will be used for the following purposes:

	Based on the Minimum Offer Price of HK\$3.075	Based on the Maximum Offer Price of HK\$2.850
	(HK\$ million)	
Payment on the properties	2,952.1	2,824.3
Renovation works at the White Horse Building	26.7	26.7
Expenses of the global Offering and debt related costs	98.8	95.5
Retention of funds related to rental income to Partat (BVI)*	2.1	2.1
Total	3,079.1	2,948.6

\*The amount represents the rental income of White Horse Building due to Partat (BVI), the entity that will hold the building after the listing, from the listing date to 31<sup>st</sup> December 2005 (when majority of the current leases will expire).

### Financial Highlights

	Year ended 31 <sup>st</sup> December			6 months ended 30 <sup>th</sup> June 2005
	2002* HK\$ '000	2003 HK\$ '000	2004 HK\$ '000	HK\$ '000
Turnover	3,274	129,395	172,080	92,644
Other net gains	203	11,731	9,481	5,863
Total turnover	3,477	141,126	181,561	98,507
Operating income	2,334	98,123	127,752	69,014**
Increase/(decrease) in fair value of investment properties	-	246,341	5,107	612,044
Profit for the period	1,564	234,856	88,586	466,408

\* Period from 20<sup>th</sup> December 2002 to 31<sup>st</sup> December 2002

\*\*The non-recurring item, i.e. the accelerated amortisation of deferred assets amounting to approximately HK\$17.0 million is excluded for comparison purpose.

### Description of the Properties

	Location	Gross Rentable Area (sq.m.)	Average Occupancy for Jan –Sept 2005	No of Tenancies as at 30/09/2005	Appraised Value (HK\$ m) as at 30/09/2005
White Horse Building	Yue Xiu District	49,007.2	100.0%	969	2,541.5
Fortune Plaza	Tian He District	40,356.2	Retail: 90.5% Office: 63.3%	48	545.0
City Development Plaza	Tian He District	42,397.4	Retail: 85.5% Office: 91.6%	60	385.5
Victory Plaza	Tian He District	27,262.3	85.2%	22	533.0

**Strengths/Opportunities**

- ✓ The oversupply situation of the Guangzhou real estate market in the early 1990s is now over after years of consolidation. In fact, the recent demand is quite strong. For instance, the office vacancy has dropped from 30% in 1996 to 8.5% in 2004. As property prices in other major cities like Beijing and Shanghai has been surging ahead since 2000, Guangzhou real estate prices are becoming more attractive by comparison.
- ✓ White Horse Building, that accounted for over 63% of the appraised value of GZI REIT's property portfolio and 60-70% of its rental income, is one of the PRC's top garment wholesale centres where RMB10-11 billion of trading volume is generated per annum. About 95.3% of the leases have been secured until 2009 and 2010. Moreover, these leases have annual rent escalations rights of 5% - 8% commencing from 1st January 2008. With the conversion of the 8<sup>th</sup> and 9<sup>th</sup> floor of the building into garment wholesale centres, extra 3,849.9 sq.m. will be offered for the retail/wholesale use. White House Building will therefore be the major growth driver for GZI REIT in the next few years.
- ✓ Given the guaranteed paid-out of no less than HK\$0.201 per unit in 2006, GZI REIT will offer a distribution yield of 6.54%-7.05%, which looks attractive when compared with the forecast distribution yield of 5.31% offered by the Prosperity REIT (0808) and 4.43% by the Link REIT (0823).

**Weaknesses/Threats**

- × City Development Plaza of the GZI REIT is one of the oldest Grade A office building in Tian He District that is likely to lag behind other properties in rental increase while Victory Plaza is a small sized shopping center that has a short operating history. Their contributions to earnings growth should be limited in the near future.
- × As all the properties in GZI REIT are located in Guangzhou, the outbreak of epidemic diseases such as the avian flu in the Guangdong province and the surrounding areas might have a material adverse affect on Guangzhou's economy, that in turn affects GZI REIT's rental income.

**Recommendation:     Subscribe**