



GUANGDONG INVESTMENT LIMITED
(粵海投資有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 270)

CLARIFICATION ANNOUNCEMENT

The board of directors (the “**Board**”) of Guangdong Investment Limited (the “**Company**”) has noted that there are articles in newspapers dated 23 October 2008 reporting on: (1) interest rate swaps that the Company and certain of its subsidiaries (collectively, the “**Group**”) have entered into; and (2) discussions on water supply to Hong Kong from Guangdong Province between the government of the Hong Kong Special Administrative Region (the “**HKSAR Government**”) and the government of Guangdong Province (the “**Guangdong Provincial Government**”).

1. INTEREST RATE SWAPS

The Group’s exposure to interest rate swaps as at 30 June 2008 has been disclosed in the Company’s 2008 interim report (the “**2008 Interim Report**”).

As stated in the 2008 Interim Report, based on the Company’s unaudited financial statements for the half-year ended 30 June 2008, as at 30 June 2008, the Group’s total floating rate borrowings amounted to HK\$9,593 million. For the purpose of interest rate risk management, the Group has entered into certain fixed or re-indexing interest rate swap agreements with an aggregate notional amount of HK\$6,400 million. Of those, swaps with an aggregate notional amount of HK\$5,200 million were designated and qualified as hedges in respect of the Group’s borrowings (the “**Qualified Cash-Flow hedges**”) and swaps with an aggregate notional amount of HK\$1,200 million were derivatives not qualified for hedge accounting (the “**Non-Qualified Cash-Flow Hedges**”). As disclosed in the 2008 Interim Report, based on the Company’s unaudited financial statements for the half-year ended 30 June 2008, for the period, the fair value loss transferred from the Qualified Cash-Flow Hedges reserve and recognised in the income statement was approximately HK\$48.31 million and the net loss in the fair value of the Non-Qualified Cash-Flow Hedges was approximately HK\$0.21 million.

As at the date of this announcement, the Group does not have any outstanding foreign exchange rate swap agreement.

Based on the Company's unaudited management accounts, for the three-month period ended 30 September 2008, the fair value loss transferred from the Qualified Cash-Flow Hedges reserve and recognised in the income statement was approximately HK\$28.29 million and the net profit in the fair value of the Non-Qualified Cash-Flow Hedges was approximately HK\$3.09 million. The Company is of the view that the Company's realised/unrealised gain or loss arising from the interest rate swaps would not have a material impact on the Company's financial position.

2. DISCUSSIONS ON THE SUPPLY OF WATER TO HONG KONG FROM GUANGDONG PROVINCE BETWEEN THE HKSAR GOVERNMENT AND THE GUANGDONG PROVINCIAL GOVERNMENT

By way of background, the supply of water to Hong Kong from Guangdong Province is regulated by an agreement between the HKSAR Government and the Guangdong Provincial Government (the "Hong Kong Water Supply Agreement") which sets out the principal terms of such water supply (including water supply volume and water tariff). Pursuant to a concession agreement dated 18 August 2000 entered into between Guangdong Yue Gang Water Supply Company Limited ("WaterCo", a subsidiary of the Company) and the Guangdong Provincial Government, the Guangdong Provincial Government has, amongst other things, granted to WaterCo the right to supply water to Hong Kong.

The current Hong Kong Water Supply Agreement for 2005–2008 was concluded in April 2006. The Company understands that there have been discussions between the HKSAR Government and the Guangdong Provincial Government on a new Hong Kong Water Supply Agreement for 2009–2011. WaterCo has not been involved in discussions in relation to water supply volume or water tariff and has not yet had information of the results of such discussions.

According to public information available on the Hong Kong Legislative Council's website, the HKSAR Government, after discussions with the Guangdong Provincial Government, will make a proposal to the Hong Kong Legislative Council in relation to the proposed terms of the Hong Kong Water Supply Agreement for 2009–2011 (the "Proposal"). Principal terms of the Proposal include: (1) annual water purchase cost for 2009–2011 of HK\$2,959 million, HK\$3,146 million and \$3,344 million, respectively (2008: HK\$2,494.8 million); (2) ultimate annual supply volume of 1,100 mcm; and (3) water quality.

The implementation of the Proposal is subject to final agreement between the HKSAR Government and the Guangdong Provincial Government and a number of conditions, which include approval from the relevant authorities. The Company believes that any increase in water tariff should have a positive impact on the revenue of the Group. An assessment of the overall impact on the Group can only be made after all the terms of the Hong Kong Water Supply Agreement for 2009–2011, including water tariff, water supply volume and water quality, have been finally determined. The Company has not been given any indication of the timing of finalisation of the Water Supply Agreement for 2009–2011.

Shareholders and investors are recommended to exercise caution in dealing in or exercising their rights in relation to securities in the Company.

This announcement is made by the Company on a voluntary basis.

By Order of the Board
Tsang Hon Nam
Director

Hong Kong, 23 October 2008

As at the date of this announcement, the Board of the Company comprises three Executive Directors, Mr. LI Wenyue, Mr. ZHANG Hui and Mr. TSANG Hon Nam; seven Non-Executive Directors, Mr. CHENG Mo Chi, Moses, Mr. HUANG Xiaofeng, Mr. ZHAI Zhiming, Mr. LI Wai Keung, Mr. SUN Yingming, Ms. XU Wenfang and Ms. WANG Xiaofeng; and three Independent Non-Executive Directors, Mr. CHAN Cho Chak, John, Dr. The Honourable LI Kwok Po, David and Mr. FUNG, Daniel R.