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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0270)

CONNECTED TRANSACTION

ACQUISITION OF INTEREST IN WATER PROCESSING PLANT IN CHINA

The Board is pleased to announce that on 8 February 2012, HK Water Co, a wholly owned subsidiary of the Company, and Guangdong Water Co (as purchasers) signed a transaction confirmation (成交確認書) with Nansha Infrastructure and Nansha Industry (as vendors) and GEMAS (as the auction platform provider) confirming that the bid entered by HK Water Co and Guangdong Water Co on the same day for the acquisition of 60% of the registered capital of Project Co in the Auction was successful. HK Water Co and Guangdong Water Co will severally acquire 49% and 11%, respectively of the registered capital of Project Co pursuant to the Auction, and it is anticipated that they will further severally (i) inject equity capital into, (ii) provide shareholder's loans to, and (iii) guarantee certain loans of, Project Co (those of the aforesaid transactions to be undertaken by HK Water Co shall collectively be referred to as the "**Transactions**").

Guangdong Water Co is a wholly owned subsidiary, and hence an associate, of Guangdong Holdings, the Company's ultimate holding company. Guangdong Holdings indirectly holds an approximately 60.5% interest in the Company as at the date of this announcement and is the controlling shareholder of the Company. Thus, Guangdong Holdings and Guangdong Water Co are connected persons of the Company.

Since HK Water Co will acquire a 49% equity interest in Project Co with Guangdong Water Co (being an associate of the Company's controlling shareholder) also becoming a substantial shareholder of Project Co and certain of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) in respect of the Transactions exceed 0.1% (but none of them exceeds 5%), the Transactions constitute a connected transaction of the Company, which is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirements, under Chapter 14A of the Listing Rules.

A. INTRODUCTION

The Board is pleased to announce that on 8 February 2012, HK Water Co, a wholly owned subsidiary of the Company, and Guangdong Water Co (as purchasers) signed a transaction

confirmation (成交確認書) with Nansha Infrastructure and Nansha Industry (as vendors) and GEMAS (as transaction platform provider) confirming that the bid entered by HK Water Co and Guangdong Water Co on the same day for the acquisition of 60% of the registered capital of Project Co in the Auction was successful. HK Water Co and Guangdong Water Co will severally acquire 49% and 11%, respectively of the registered capital of Project Co pursuant to the Auction, and it is anticipated that they will further severally (i) inject equity capital into, (ii) provide shareholder's loans to, and (iii) guarantee certain loans of, Project Co.

B. THE TRANSACTIONS

The Share Transfer Agreement

- Parties

- (1) HK Water Co (as purchaser);
- (2) Guangdong Water Co (as purchaser);
- (3) Nansha Infrastructure (as vendor); and
- (4) Nansha Industry (as vendor)

HK Water Co is principally engaged in investment holding and is a wholly owned subsidiary of the Company. Guangdong Water Co is principally engaged in investment holding and is a wholly owned subsidiary of Guangdong Holdings, which is an investment holding company and the ultimate holding company of the Company.

The Company understands that Nansha Infrastructure and Nansha Industry are state-owned enterprises and are principally engaged in infrastructure construction investment, wholesale and retail trade, and technical consultation. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Nansha Infrastructure and Nansha Industry are third parties independent of the Company and its connected persons.

Acquisition of interests in Project Co

Project Co, with a registered capital of approximately RMB246.03 million, is currently owned by Nansha Infrastructure and Nansha Industry as to 45% and 55%, respectively.

As a result of the successful bid for 60% of the registered capital of Project Co in the Auction, pursuant to the Share Transfer Agreement (i) 34% and 15% of the registered capital of Project Co (held by Nansha Infrastructure and Nansha Industry, respectively) will be transferred to HK Water Co, and (ii) 11% of the registered capital of Project Co held by Nansha Infrastructure will be transferred to Guangdong Water Co.

The consideration for the acquisition of 49% of the registered capital of Project Co by HK Water Co is approximately RMB120.56 million in cash. The consideration for the acquisition of 11% of the registered capital of Project Co by Guangdong Water Co is approximately RMB27.06 million in cash. The obligation to pay the said consideration under the Share Transfer Agreement is conditional upon the obtaining of the relevant board and/or shareholders approvals of the parties, and certain government approvals in the PRC in relation to the Share Transfer.

The said consideration will be applied in full by Nansha Infrastructure and Nansha Industry to repay certain debts owed by Nansha Infrastructure and Nansha Assets to Project Co in accordance with the Debt Repayment Agreement. The amounts owed by the aforesaid debtors to Project Co, being the amount of approximately RMB290.07 million in aggregate, shall be repaid to Project Co, first, by applying the entire proceeds of RMB147.62 million received by Nansha

Infrastructure and Nansha Industry pursuant to the Share Transfer Agreement, and, second, as to the remaining amount of approximately RMB142.45 million, which will be repaid in two equal installments, the first of which will be paid before 31 December 2013 and the second will be paid before 31 December 2014. Interest at a weighted composite rate imposed by banks on Project Co is also payable on the outstanding debt as from 1 January 2012, calculated once every quarter and paid to Project Co before the fifth day of the first month of the next quarter. Under the Debt Repayment Agreement, Project Co is also entitled to withhold any dividend distributable to Nansha Industry (who will continue to be a shareholder of Project Co) and apply such amount to set-off any outstanding debts aforementioned, until full repayment of all the debts. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Nansha Assets and the other parties to the Debt Repayment Agreement (all being entities related to Nansha Industry, Nansha Infrastructure and Nansha Assets) are also third parties independent of the Company and its connected persons.

Other terms of the Share Transfer Agreement

To the extent that Project Co shall have incurred a loss on its net asset value for the period from 1 June 2011 to the Delivery Date ("**Interim Loss**", which shall be determined by the parties' agreement or, if the parties cannot agree, by an auditor to be appointed by the parties):

- (a) should the Interim Loss be RMB68 million (or less), such Interim Loss shall be settled by Nansha Infrastructure and Nansha Industry (i) procuring the provision of two floors of a building at Financial Building at No. 171, Haibin Road, Nansha District, Guangzhou City, Guangdong Province, the PRC with a gross floor area of approximately 2,430 sqm. to be used, free of rent and for 20 years, by Project Co as its offices, and (ii) settling a debt of RMB18.75 million previously owed by Nansha Branch (being a branch of Project Co) to Nansha Economic Technology Development. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Nansha Economic Technology Development is a third party independent of the Company and its connected persons; and
- (b) in the event that the Interim Loss shall exceed RMB68 million, the amount of the excess shall be borne by Nansha Infrastructure and Nansha Industry.

The due performance of all of the obligations of Nansha Infrastructure and Nansha Industry under the Share Transfer Agreement will be secured by two letters of guarantee to be provided by Nansha Assets to each of HK Water Co and Guangdong Water Co. Nansha Industry has also agreed to provide an undertaking to HK Water Co and Guangdong Water Co that it will provide a charge on the registered capital of Project Co held by it at the time to secure the same due performance, should HK Water Co and/or Guangdong Water Co request so.

Future capital injection into Project Co

The shareholders of Project Co may inject further capital into Project Co on a pro-rata basis, and, pursuant to the Share Transfer Agreement, if Nansha Industry declines to so inject further capital, HK Water Co and Guangdong Water Co may inject further capital into Project Co, up to a limit of 85% in aggregate of the enlarged registered capital of Project Co.

After HK Water Co and Guangdong Water Co become shareholders of Project Co, HK Water Co and Guangdong Water Co currently intend (but subject to the then requirements of Project Co) to severally inject further capital (assuming that Nansha Industry cannot and/or will not participate in any further capital injection) into Project Co in 2012 and 2013, up to an aggregate amount of approximately RMB173.45 million and approximately RMB180.52 million, respectively, in

which case the enlarged registered capital of Project Co to be held by HK Water Co will remain at 49%, while the proportion of the enlarged registered capital of Project Co to be held by Guangdong Water Co will increase from 11% to 34.6% and that of Nansha Industry will be reduced from 40% to 16.4%.

Shareholder's loans to Project Co

It is also currently intended (but subject to the then requirements of Project Co) that, after HK Water Co and Guangdong Water Co become shareholders of Project Co, HK Water Co and Guangdong Water Co will severally provide shareholder's loans to Project Co in proportion to their respective shareholdings in Project Co in 2012 and 2013 (assuming that Nansha Industry cannot and/or will not extend any shareholder's loan to Project Co), up to an aggregate amount of approximately RMB249.63 million and approximately RMB152.62 million, respectively.

Provision of guarantee

Pursuant to the Share Transfer Agreement, it is agreed that after HK Water Co and Guangdong Water Co become shareholders of Project Co, they will negotiate with the relevant creditors of Project Co before 31 December 2013 such that HK Water Co, Guangdong Water Co and Nansha Industry will severally guarantee the loans of Project Co in proportion to their respective shareholdings in Project Co. It is currently estimated that HK Water Co will guarantee approximately RMB510 million of Project Co's loans.

Basis for the determination of consideration

HK Water Co acquires 49% of the registered capital in Project Co through the Auction, and the consideration of approximately RMB120.56 million payable by HK Water Co is the pro rata amount of the reserve price (i.e. minimum price) for the 60% registered capital of Project Co and the amount equivalent to 49% of the contributed registered capital of Project Co. The Company has also considered the asset value (as at 31 May 2011) attributable to the 49% of the registered capital in Project Co (being the amount of approximately RMB916.77 million) as appraised by 廣東中聯羊城資產評估有限公司 (Guangdong Zhonglian Yangcheng Asset Appraisal Limited*) (whose report was made available by GEMAS under the Auction), which amount is higher than the consideration payable by HK Water Co.

C. INFORMATION ON PROJECT CO

The Company understands that Project Co is a company established in the PRC on 10 November 2003 and is principally engaged in the construction, operation and maintenance of water supply facilities and the supply of water to Nansha District, Guangzhou City, Guangdong Province, the PRC.

To the best of the Directors' knowledge, information and belief, the principal assets of Project Co are the water processing plant and the water supply facilities (the "**Huangge Water Plant**") and the rights relating to the processing and supply of water to Nansha District. The Huangge Water Plant currently has a processing capacity of 200,000 tonnes per day, and processes and supplies water to Nansha District.

It is intended that Project Co will pay (i) a land premium of no more than RMB347 per sqm. and the relevant prescribed tax and fees to obtain the land use right certificates for an area of approximately 150,623 sqm., and a discounted land premium and the relevant prescribed tax and fees to obtain the land use right certificates for an area of approximately 50,000 sqm., respectively, where the Huangge Water Plant is situated, (ii) a land premium of no more than

RMB180 per sqm. and the relevant prescribed tax and fees to obtain the land use right certificate for an area of approximately 24,151 sqm. where the water intake facility is situated, and (iii) up to RMB310 million for the various projects in relation to the construction of the Huangge Water Plant and the water supply network which have taken place or are currently taking place. Any amount exceeding the aforementioned will be borne by Nansha Infrastructure and Nansha Industry.

The audited net losses before and after taxation and extraordinary items of Project Co (excluding Nansha Branch) (prepared based on the generally accepted accounting principles in the PRC) for the year ended 31 December 2010 were approximately RMB18.64 million and RMB18.64 million, and the audited net profits before and after taxation and extraordinary items of Nansha Branch (which was previously a wholly owned subsidiary of Project Co in 2010) (prepared based on the generally accepted accounting principles in the PRC) for the year ended 31 December 2010 were approximately RMB3.35 million and RMB2.61 million. Nansha Branch merged into Project Co and became a branch of Project Co in September 2011.

The unaudited net losses before and after taxation and extraordinary items of Project Co (including Nansha Branch) (prepared based on the generally accepted accounting principles in the PRC) for the year ended 31 December 2011 were RMB80.69 million and RMB80.69 million.

As at 31 December 2011, the unaudited net asset value (prepared based on the generally accepted accounting principles in the PRC) of Project Co (including Nansha Branch) was approximately RMB113.43 million.

D. REASONS FOR THE TRANSACTIONS AND BENEFITS TO THE COMPANY

The Group is principally engaged in investment holding, property holding and investment, investing in infrastructure and energy projects, water supply to Hong Kong and Shenzhen and Dongguan, hotel ownership and operations, hotel management and department stores operation.

As the principal assets of Project Co are the Huangge Water Plant and the rights relating to the processing and supply of water to Nansha District, the Board is of the view that the business of Project Co is complementary to and a natural extension of the Group's water supply business.

The Board also understands that Guangdong Holdings has experience in investing in and operation of water processing plants and extensive connections in the water processing industry in the Guangdong Province. The Directors believe that the Group will benefit from leveraging on the know-how and experience of Guangdong Holdings in the water processing industry.

Taking into account the above, the Directors (including the independent non-executive Directors) consider that the Transactions are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

E. LISTING RULES IMPLICATIONS

Guangdong Water Co is a wholly owned subsidiary, and hence an associate, of Guangdong Holdings, the Company's ultimate holding company. Guangdong Holdings indirectly holds an approximately 60.5% interest in the Company as at the date of this announcement and is the controlling shareholder of the Company. Thus, Guangdong Holdings and Guangdong Water Co are connected persons of the Company.

Since HK Water Co will acquire a 49% equity interest in Project Co with Guangdong Water Co (being an associate of the Company's controlling shareholder) also becoming a substantial shareholder of Project Co and certain of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) in respect of the Transactions exceed 0.1% (but none of them exceeds 5%), the Transactions constitute a connected transaction of the Company, which is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirements, under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Director has any material interest in the Transactions or is required to abstain from voting on the board resolution approving the Transactions.

F. DEFINED TERMS USED IN THIS ANNOUNCEMENT

“associate”	has the meaning ascribed to it in the Listing Rules
“Auction”	the transfer in the open market (公開市場) of 60% of the registered capital of Project Co through a public auction process
“Board”	the board of Directors
“Company”	Guangdong Investment Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Debt Repayment Agreement”	an agreement to be entered into between Project Co, Nansha Industry, Nansha Infrastructure, Nansha Assets, and certain other entities related to Nansha Industry, Nansha Infrastructure and Nansha Assets in relation to certain debts owed to Project Co
“Delivery”	the process of delivering the 60% of the registered capital in Project Co to HK Water Co and Guangdong Water Co in accordance with the provisions under the Share Transfer Agreement
“Delivery Date”	the date on which (i) the Delivery is completed and (ii) HK Water Co and Guangdong Water Co shall become holders of the relevant registered capital of Project Co and shall be entitled to the rights and obligations as such in accordance with their respective shareholdings in Project Co
“Director(s)”	director(s) (including, for the avoidance of doubt, the independent non-executive director(s)) of the Company

“Guangdong Holdings”	廣東粵海控股有限公司 (Guangdong Holdings Limited*), a company established in the PRC and the ultimate holding company of the Company and, as at the date of this announcement, indirectly holds an approximately 60.5% interest in the Company
“Guangdong Water Co”	廣東粵海水務股份有限公司 (Guangdong Yue Hai Water Holdings Limited*), a company established in the PRC
“GEMAS”	廣州產權交易所 (Guangzhou Enterprises Mergers and Acquisitions Services*)
“Group”	the Company and its subsidiaries
“Huangge Water Plant”	has the meaning ascribed to it in the section headed "C. INFORMATION ON PROJECT CO" in this announcement
“Listing Rules” or “Rule(s)”	the Rules Governing the Listing of Securities on the Stock Exchange
“HK Water Co”	Guangdong Water Group (H.K.) Limited (粵海水務集團(香港)有限公司), a company established in Hong Kong and a wholly owned subsidiary of the Company
“Nansha Assets”	廣州南沙資產經營有限公司 (Guangzhou Nansha Assets Operation Limited*), a company established in the PRC and the holding company of Nansha Infrastructure and Nansha Industry
“Nansha Branch”	廣州南沙經濟技術開發區自來水總公司 (Guangzhou Nansha Economic Technology Development Zone Water Corporation*), which was previously a wholly owned subsidiary of Project Co established in the PRC and merged into Project Co and became a branch of Project Co in September 2011
“Nansha Economic Technology Development”	廣州南沙經濟技術開發總公司 (Guangzhou Nansha Economic Technology Development Corporation*), a company established in the PRC
“Nansha Infrastructure”	廣州南沙基礎設施投資有限公司 (Guangzhou Nansha Infrastructure Investment Limited*), a company established in the PRC
“Nansha Industry”	廣州南沙工化投資有限公司 (Guangzhou Nansha Industry Investment Limited*) a company established in the PRC

“PRC” or “China”	the People's Republic of China, which, for the purpose of this announcement, unless otherwise specified, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Project Co”	廣州臨海水務有限公司 (Guangzhou Coastal Water Limited*), a company established in the PRC
“RMB”	Reminbi, the lawful currency of the PRC
“Share Transfer”	the transfer of (i) 34% and 15% of the registered capital of Project Co (held by Nansha Infrastructure and Nansha Industry, respectively) to HK Water Co, and (ii) 11% of the registered capital of Project Co (held by Nansha Infrastructure) to Guangdong Water Co, pursuant to the Share Transfer Agreement
“Share Transfer Agreement”	the share transfer agreement (股權轉讓合同) to be entered into between HK Water Co, Guangdong Water Co, Nansha Infrastructure and Nansha Industry in respect of the sale and purchase of 60% of the registered capital in Project Co
“Shareholder(s)”	holder(s) of the share(s) of the Company
“sqm.”	square metre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Transactions”	has the meaning ascribed to it in the summary section of this announcement
“%”	per cent.

* *The English translation of the Chinese name of the relevant company or entity included in this announcement is prepared by the Company for reference only, and such translation may not be accurate and such company may not have an official English translation/version of its Chinese name.*

By Order of the Board
Huang Xiaofeng
Chairman

Hong Kong, 8 February 2012

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