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越秀投資有限公司

GUANGZHOU INVESTMENT COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 123)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser

Yu Ming Investment Management Limited



禹銘投資管理有限公司

The Stock Exchange has previously granted to the Company a waiver from strict compliance with the requirements of disclosure by press notice, circular to shareholders and/or independent shareholders' approval under the then Chapter 14 of the Listing Rules in respect of certain continuing connected transactions between GZ Paper (an indirectly-held subsidiary of the Company) and GZ Paper Holdings (a substantial shareholder of GZ Paper).

The previous waiver was granted for a period of three years and expired on 31st December, 2004. The Transactions constitute non-exempt continuing connected transactions under the current Listing Rules.

A circular containing, inter alia, further details of the Lease Contract and the Utilities Supply Contract and the opinion of Yu Ming as the independent financial adviser of the Company will be dispatched to the shareholders of the Company as soon as practicable in accordance with the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 17th October, 2002 and the circular to shareholders dated 9th November, 2002 in relation to certain continuing connected transactions between GZ Paper Holdings and GZ Paper.

On 17th October 2002, GZ Paper entered into the Lease Contract and the Utilities Supply Contract with GZ Paper Holdings, pursuant to which GZ Paper leased from GZ Paper Holdings the Mill Premises; and GZ Paper Holdings supplied electricity, water and steam on 24-hour continual basis to the paper mill operated by GZ Paper on the Mill Premises.

At the time the Lease Contract and the Utilities Supply Contract were entered into, GZ Paper was a Sino-foreign equity joint venture in which the Company had 51% indirect equity interest and GZ Paper Holdings had 49% equity interest. Transactions under the Lease Contract and the Utilities Supply Contract therefore constituted continuing connected

transactions of the Company under the then Chapter 14 of the Listing Rules. The shareholders of the Company approved the Transactions in an extraordinary general meeting held on 25th November, 2002, and the Stock Exchange granted the Company a conditional waiver from strict compliance with the requirements of disclosure by press notice, circular to shareholders and/or independent shareholders' approval under the then Chapter 14 of the Listing Rules in respect of such transactions. The previous waiver was granted for a period of three years and expired on 31st December, 2004. The Transactions constitute non-exempt continuing connected transactions under the current Listing Rules.

THE LEASE CONTRACT

Date:

17th October, 2002

Parties:

Lessor: GZ Paper Holdings

Lessee: GZ Paper

Leased Properties:

Mill Premises

Rental:

Approximately RMB 1.446 million (approximately HK\$1.358 million) per month, which was agreed between the parties at arm's length based on standard rental fees set by the Guangzhou Municipal People's Government for similar premises in the area after taking into account the market rental for similar premises in the area. In the event of adjustment of standard rental fees, land use taxes and fees by the Guangzhou Municipal People's Government, the rental fee may be adjusted in accordance with the relevant regulations. Adjustments to the rental fee, however, may not exceed 5% of the previous year's rental. There has been no adjustment since the Lease Contract was first entered into.

The current rent and the basis for calculating the rent remain unchanged from that disclosed in the announcement of the Company dated 17th October, 2002 and the circular to shareholders dated 9th November, 2002.

Term:

20 years from 25th November, 2002 which was the date on which the conditions precedent to the Lease Contract were fully satisfied.

Use:

The leased properties shall be used by GZ Paper in its newsprint manufacturing business.

GZ Paper may not without the prior written consent of GZ Paper Holdings transfer, sublet or charge the leased properties.

THE UTILITIES SUPPLY CONTRACT

Date:

17th October, 2002

Parties:

Supplier: GZ Paper Holdings

User: GZ Paper

Utilities supplied:

Electricity, water and steam on 24-hour continual basis to the paper mill operated by GZ Paper on the Mill Premises

Fees:

The annual fees shall be agreed in advance between the parties in writing in respect of each year during the term of the Utilities Supply Contract, the percentage of adjustment of unit rates shall not exceed the percentage of adjustment of the market price and, subject to the special adjustments mentioned below, shall not exceed 10% of the unit rates for the previous year. In the event of special adjustments made by the Guangzhou Municipal People's Government of fees for the supply of electricity, water and steam, adjustments to fees payable under the Utilities Supply Contract shall be made in accordance with the relevant requirements.

The basis for estimating the annual fees remain unchanged from that disclosed in the announcement of the Company dated 17th October, 2002 and the circular to shareholders dated 9th November, 2002.

The annual fees for 2005 is estimated to be approximately RMB287.78 million which is determined by reference to the previous transactions in the period from 1st January, 2004 to 31st December, 2004 i.e. the consumption of the utilities by GZ Paper in the preceding year and the unit rates set for 2005 as stated below. Such unit rates are determined by reference to the applicable regulations of the Guangzhou Municipal People's Government after taking into account the production cost or the market price for provision of such utilities on an industrial basis.

Unit rates for 2005 for such utilities are set out as follows:

Utility	Unit Rate
Electricity	: RMB0.382 per kwh
Turbid water	: RMB0.108 per cubic metre

Clean water : RMB0.4005 per cubic metre
 Chemically treated water : RMB4.59 per cubic metre
 Steam : RMB31.3 per GJ

Term:

20 years from 25th November, 2002 which is the date on which the conditions precedent to the Utilities Supply Contract were fully satisfied.

COMPLIANCE WITH PREVIOUS WAIVER

The Company has fully complied with the terms of the previous waiver. A summary of the amounts of the Transactions for the two years ended 31st December, 2004 is set out as follows (approximate equivalent in HK\$ in brackets):

	Year ended 31st December, 2003 <i>(Note 1)</i>	1st January, 2004 to 31st December, 2004 <i>(Note 2)</i>
Rent under Lease Contract <i>(Note 3)</i>	RMB 17,350,011 (HK\$16,214,964)	RMB 17,350,011 (HK\$16,291,090)
Utilities Supply Contract:	RMB 181,993,940 (HK\$170,087,794)	RMB 259,527,779 <i>(Note 4)</i> (HK\$243,688,055)
Total	RMB 199,343,951 (HK\$186,302,758)	RMB 276,877,790 (HK\$259,979,145)

Note 1: The figures set out in this column are extracted from the audited accounts of the Group for the year ended 31st December, 2003. (The exchange rate of RMB107=HK\$100 was adopted in computing the HK\$ equivalent.)

Note 2: The figures set out in this column are extracted from the unaudited management accounts of the Group for the year ended 31st December, 2004.

Note 3: There has been no increase in rent.

Note 4: This figure is based on unaudited management accounts and is subject to audit adjustment.

BENEFITS OF THE TRANSACTIONS

Presently the Group is principally engaged in (i) property investment and development, (ii) manufacture and sale of newsprint (through GZ Paper), and (iii) operation of toll roads and bridges.

The Mill Premises and the assets which generate the utilities supplied pursuant to the Utilities Supply Contract were transferred by GZ Paper to GZ Paper Holdings on 25th November, 2002 in order to increase the competitiveness of GZ Paper as part of a corporate restructuring exercise. The Lease Contract and the Utilities Supply Contract were entered into to ensure that operations of GZ Paper's newsprint business will remain unaffected after such transfer. GZ Paper's newsprint business is entirely dependent on the continuation of the Transactions. The Mill Premises are the manufacturing and operating premises of GZ Paper. While it may be possible for GZ Paper to locate alternative utilities supplies from other sources, the Directors do not consider that alternative suppliers will be able to offer terms which are more favourable than the terms under the Utilities Supply Contract. The Directors (including the independent non-executive Directors) consider that the Lease Contract and the Utilities Supply Contract remain fair and reasonable, was entered into in the ordinary and usual course of business of GZ Paper on normal commercial terms, and continue to be in the best interests of the Company and its shareholders as a whole. It may not be beneficial to the interest of the Company or its shareholders to terminate the existing arrangements and instead enter into short term operating leases and supply contracts as GZ Paper will be put in a precarious position if it cannot secure renewal of the lease or supply contract upon expiry, particularly given the recent volatility in energy supplies.

REQUIREMENTS OF THE LISTING RULES

GZ Paper is a joint stock company in which the Company has 51% indirect equity interest and GZ Paper Holdings has 47.25% equity interest. It is expected that the revenue ratio and the consideration ratio for the Transactions for each of the three years ending on 31st December, 2007 will exceed the relevant percentage of 2.5% on an annual basis and the annual consideration is more than HK\$10,000,000 under Rule 14A.34, and will therefore constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules.

The Company has obtained written approval under Rule 14A.43 of the Listing Rules from a closely allied group of shareholders, namely Yue Xiu Enterprises (Holdings) Limited and its associates, collectively holding more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at the general meeting of the Company to approve continuation of the Transactions at the cap amount described below if one were to be held. Yue Xiu Enterprises (Holdings) Limited has direct holding of 10,928,184 shares in the Company and is deemed by the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to be interested in 3,218,507,064 shares in the Company as a result of its indirect holding of such shares through its subsidiaries (namely, Yue Xiu Finance Company Limited (44,492,000 shares), Goldstock International Limited (35,233,160 shares), *Novena Pacific Limited (565,683,000 shares), *Bosworth International Limited (2,279,312,904 shares), *Morrison Pacific Limited (158,049,000 shares) and *Greenwood Pacific Limited (135,737,000 shares)).

* each of the named companies is a special purpose vehicle set up to hold interest in the relevant shares

None of Yue Xiu Enterprises (Holdings) Limited and its aforementioned associates are required to abstain from voting if the Company were to convene a general meeting to approve continuation of the Transactions at the cap amount described below as the only connected person of the Company in relation to the Transactions is GZ Paper Holdings which does not (including through its associates) hold any shares in the Company.

The Company has applied to the Stock Exchange for a waiver under Rule 14A.43 of the Listing Rules for written independent shareholders' approval in lieu of holding a general meeting. If the waiver mentioned above is not granted, the Company will convene an extraordinary general meeting for approval of the continuation of the Transactions at the cap amount described below.

The maximum aggregate annual value of the transactions under the Lease Contract and the Utilities Supply Contract for each of the three financial years ending on 31st December, 2005, 2006 and 2007 is RMB416.09 million (approximately HK\$390.69 million). This cap amount has been determined with reference to (i) the annual fees payable by GZ Paper for 2005 under the Lease Contract and the Utilities Supply Contract based on standard fee rates set by the Guangzhou Municipal People's Government after taking into account market prices for similar premises and utilities or the cost of production for such utilities; (ii) adjustments which may be made in accordance with the market price pursuant to the Utilities Supply Contract; (iii) adjustments which may be made in accordance with the requirements of the Guangzhou Municipal People's Government pursuant to the Lease Contract and the Utilities Supply Contract; (iv) GZ Paper's estimate of its turnover for the coming three years ending on 31st December, 2007; and (v) based on the assumption that there will be no reduction in the annual fees.

The aggregate cap amount above is calculated as follows:

(a) Based on the Lease Contract:

annual rent for 2005 : approximately RMB17.352 million
(i.e. RMB1.446 million x 12 months)

assumed increase of 5% of : RMB17.352 million x 1.05 x 1.05
previous year's annual rent = approximately RMB19.13 million
for 2006 and 2007

(b) Based on the Utilities Supply Contract:

annual fees for 2005 : approximately RMB287.78 million

assumed increase of 10% of : RMB287.78 million x 1.1 x 1.1
previous year's annual fees = approximately RMB348.21 million
for 2006 and 2007

margin of approximately 14% to take into account special adjustments made by the Guangzhou Municipal People's Government and the estimate of turnover of GZ Paper for 2006 and 2007 : RMB348.21 million x 1.14 = approximately RMB396.96 million

Based on the above calculations, the aggregate cap amount of the transactions under the Lease Contract and the Utilities Supply Contract for each financial year of the Company is RMB416.09 million (i.e. RMB19.13 million + RMB396.96 million) (approximately HK\$390.69 million).

The term of both the Lease Contract and the Utilities Supply Contract is 20 years. Under Rule 14A.35(1) of the Listing Rules, a continuing connected transaction which is not fully exempted must be governed by an agreement for a fixed period not exceeding three years unless there are special circumstances requiring a longer duration. The Directors are of the view that the special circumstances in this case are:

- (a) the Lease Contract and the Utilities Supply Contract were part and parcel of the corporate restructuring of GZ Paper which had been approved by the shareholders of the Company on 25th November, 2002. A key feature of the corporate restructuring involved the disposal by GZ Paper to GZ Paper Holdings of, amongst other things, the Mill Premises, the plants and machinery for the generation of electricity, water and steam for use and consumption by the paper mill operated by GZ Paper. To secure the use of the Mill Premises and the continuous supply of electricity, water and steam for the uninterrupted operation of the paper mill, which is the sole business carried on by GZ Paper, GZ Paper negotiated for both the Lease Contract and the Utilities Supplies Contract to run for a term of 20 years, such that both contracts would almost co-terminate with the term of operation of GZ Paper;
- (b) the Lease Contract and the Utilities Supply Contract as approved by the shareholders of the Company contained clear provisions and limitations on price increases, which the Directors consider to be fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (c) the Lease Contract and the Utilities Supply Contract were entered into prior to introduction of Rule 14A.35(1), they do not provide for unilateral termination without cause prior to the agreed term of 20 years, there is no assurance that any negotiations with GZ Paper Holdings to shorten the term of both contracts would be successful, and even if GZ Paper Holdings agrees to replace the subsisting contracts with three-year term contracts there is no assurance that they will be on the same terms and conditions; and

- (d) the Lease Contract and the Utilities Supply Contract secures the premises and infrastructure for GZ Paper’s production premises, three-year term contracts will expose GZ Paper to the risk of having to relocate causing severe disruption to its operations if such contracts cannot be renewed upon expiry or if such contracts are renewed on less favourable terms and conditions.

In view of the above special circumstances and the factors that will be addressed in the circular to be dispatched to the shareholders in connection with the Transactions, for the purposes of compliance with Rule 14A.35(1) which came into operation after the Transactions were first entered into, the Directors are of the view that in the context of corporate reorganizations involving sale or purchase of substantial production assets, it is normal business practice to enter into long term leases in relation to those production assets to secure uninterrupted operation of the business utilizing them, and it is also normal business practice for companies engaged in utilities supply to enter into long term supply contracts.

If the cap amount is at any time exceeded, or if the terms of the Lease Contract or the Utilities Supply Contract are altered, or if GZ Paper enters into new arrangements or agreements with GZ Paper Holdings or any other connected persons during the period from 1st January, 2005 to 31st December, 2007, the Company will comply with the applicable provisions of Chapter 14A of the Listing Rules governing connected transactions unless it applies for and obtains relevant waiver(s) from the Stock Exchange.

A circular containing, inter alia, further details of the Lease Contract and the Utilities Supply Contract and the opinion of Yu Ming as the independent financial adviser of the Company will be dispatched to the shareholders of the Company as soon as practicable in accordance with the Listing Rules. Yu Ming is an Independent Third Party.

The Directors as at the date of this announcement are: Mr. Ou Bingchang, Mr. Chen Guangsong, Mr. Li Fei, Mr. Liang Ningguang, Mr. Xiao Boyan, Mr. Liang Yi, Mr. Yu Lup Fat Joseph (independent non-executive Director), Mr. Lee Ka Lun (independent non-executive Director) and Mr. Lau Hon Chuen Ambrose (independent non-executive Director).

TERMS USED IN THIS ANNOUNCEMENT

“Company”	Guangzhou Investment Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange and on the SES
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

“GZ Paper”	an indirect subsidiary of the Company by the name of Guangzhou Paper Co., Ltd. (廣州造紙股份有限公司), a joint stock company which was converted under the laws of the PRC on 27th March, 2003 from a Sino-foreign equity joint venture originally established between GZ Paper Holdings and a wholly-owned subsidiary of the Company. As at the date of this announcement, the equity interest of GZ Paper is held as to 51% indirectly by the Company, as to 47.25% by GZ Paper Holdings, and as to the remaining 1.75% by 廣州市金譽實業投資集團有限公司, 廣州市誠毅科技軟件開發有限公司 and 廣州番禺大崗鎮化工廠, which are all independent of and not connected with any of the directors, chief executives and substantial shareholders of the Company, or any of their respective associates
“GZ Paper Holdings”	Guangzhou Paper Holdings Limited (廣州造紙集團有限公司), a limited liability company established under the laws of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a party which is not a connected person as defined in the Listing Rules
“Lease Contract”	the contract dated 17th October, 2002 entered into between GZ Paper Holdings and GZ Paper pursuant to which GZ Paper Holdings leased the Mill Premises to GZ Paper
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mill Premises”	certain land, workshops and ancillary buildings located at No.40, Guangzhi Road, Haizhu District, Guangzhou, the PRC, with an approximate aggregate gross floor area of 142,344 square metres
“PRC”	People’s Republic of China
“SES”	Singapore Exchange Securities Trading Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the Lease Contract and the Utilities Supply Contract and all transactions contemplated thereunder
“Utilities Supply Contract”	the contract dated 17th October, 2002 entered into between GZ Paper Holdings and GZ Paper pursuant to which GZ Paper Holdings provides electricity, water and steam to GZ Paper

“Yu Ming”	Yu Ming Investment Management Limited, a deemed licensed corporation for types 1, 4, 6, and 9 regulated activities under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

For illustrative purposes of this announcement, RMB 106.5 = HK\$100 save as otherwise stated.

By Order of the Board
Ou Bingchang
Chairman

Hong Kong, 28th February, 2005

Please also refer to the published version of this announcement in The Standard.