

## Funding / Financing

We finance our operations and business expansions, in particular the capital expenditure programmes of CLP Power Hong Kong and CAPCO for our Hong Kong electricity business, using cash flow generated from operations, bank loans and debt securities.

### Cash Flow

Our cash flow generated from operations, especially from our Hong Kong electricity business, has been and is expected to continue to be our principal source of liquidity. This cash-generating capability is one of our fundamental strengths and provides us with substantial flexibility in meeting our funding requirements, in particular for dividend payments and capital investments.

For the year 2004, excluding the effect of changes in exchange rates, there was a net increase in cash and cash equivalents of HK\$1,645 million. The increase was in part due to incorporation of the full year cash movement of Yallourn Energy and GPEC into our accounts.

	2004 HK\$M	2003 HK\$M
Cash provided by/(used in):		
Operating activities	<b>10,195</b>	6,436
Investing activities	<b>(3,250)</b>	(1,911)
Financing activities	<b>(5,300)</b>	(4,287)
	<b>1,645</b>	238

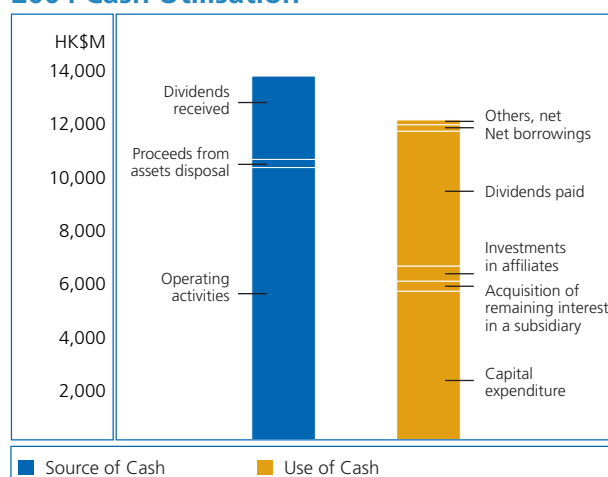
Net cash provided by operating activities amounted to HK\$10,195 million, an increase of HK\$3,759 million. This reflects the strong business performance of CLP Power Hong Kong and improved collection of receivables by GPEC.



Cash used in investing activities mainly comprised the capital expenditure of CLP Power Hong Kong and Yallourn Energy as well as investments in power projects outside Hong Kong and advances to CAPCO. This was partly offset by dividends received from investments and profits received from the Hok Un joint venture.

Net cash used in financing activities in 2004 primarily resulted from the payment of dividends.

### 2004 Cash Utilisation



# How did we do in 2004?

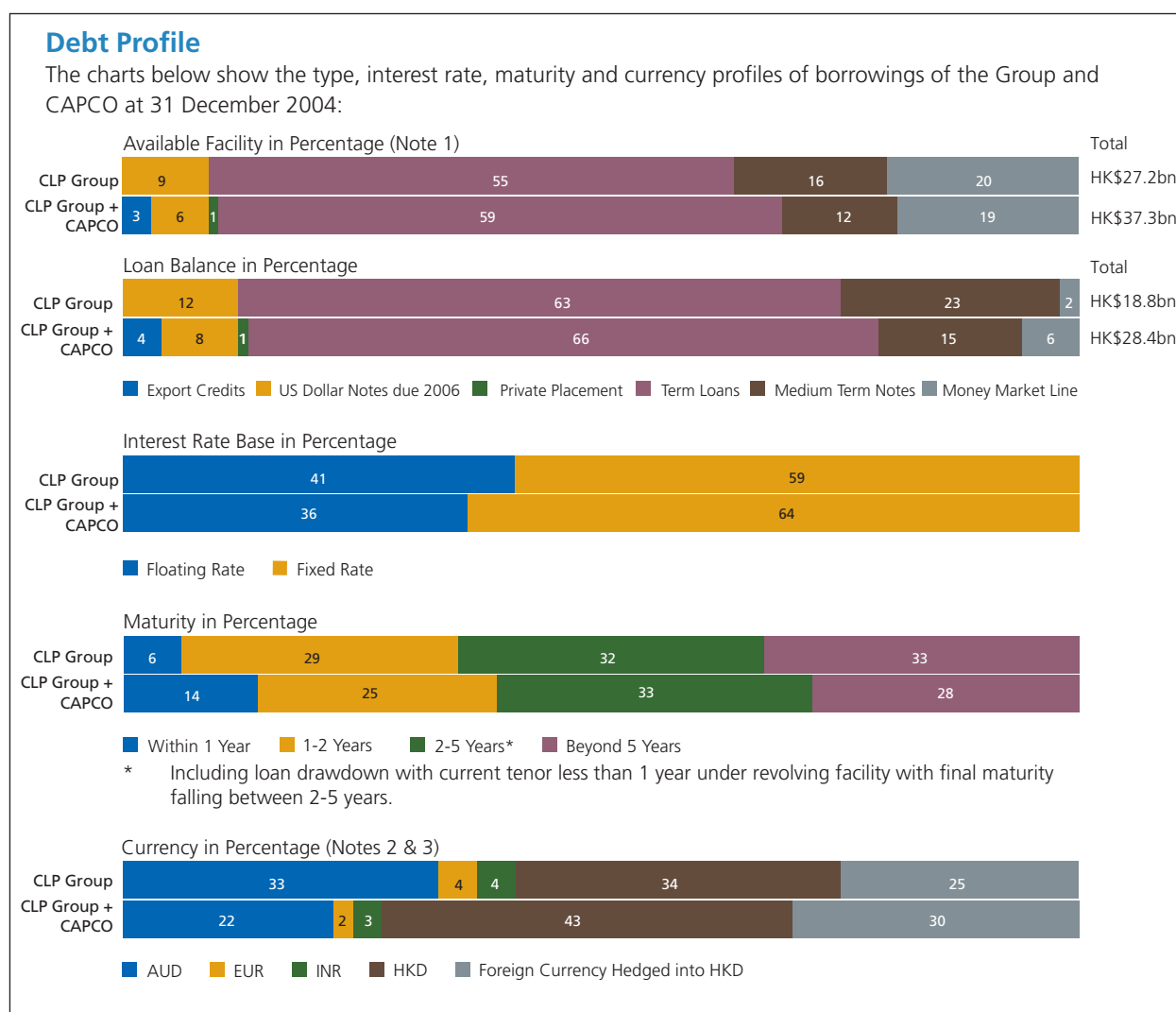
## Financing

We adopt a prudent approach to all our financial arrangements, while at the same time aiming to achieve cost efficient funding. In January and November 2004, CLP Power Hong Kong issued two tranches of fixed rate notes due 2014 of HK\$500 million each, with coupon rates at 4.93% and 4.28% respectively, through its wholly-owned subsidiary CLP Power Hong Kong Financing Limited. These issues were made under the Medium Term Note (MTN) Programme set up by CLP Power Hong Kong Financing Limited in 2002. Under the MTN Programme, notes in an aggregate amount of up to

US\$1.5 billion may be issued and will be unconditionally and irrevocably guaranteed by CLP Power Hong Kong. As at 31 December 2004, about HK\$4,340 million notes have been issued under the MTN Programme.

In January 2005, CLP Power Hong Kong took advantage of low fixed rates of interest and issued another tranche of HK\$500 million fixed rate notes due 2015 with coupon rate at 4.35%.

CLP Power Hong Kong also arranged HK\$500 million revolving facilities at an attractive interest rate margin in May 2004.



Notes (1): For the Medium Term Note Programme, only the amount (HK\$4,340 million) of the Notes issued as at 31 December 2004 was included in the total amount of Available Facility.

(2): The Australian dollar loans were mainly incurred by Yallourn Energy to refinance its project debts in 2001.

(3): The loans in Euros and Indian Rupees were drawn by GPEC.

As at 31 December 2004, financing facilities totalling HK\$27.2 billion were available to the Group, including HK\$7.8 billion for Yallourn Energy and GPEC. Of the facilities available, HK\$18.8 billion had been drawn down, of which HK\$7.5 billion was by Yallourn Energy and GPEC. Facilities totalling HK\$10.1 billion were available to CAPCO, of which HK\$9.6 billion were drawn down.

Our total debt to total capital as at 31 December 2004 was 29.8% (2003: 31.5%) and interest cover was 11 times (2003: 12 times). These financial ratios are also disclosed in our Ten-year Summary on page 169. The increase in borrowings since 2003 as compared with previous years was due to the consolidation of the debts, which are without recourse to CLP Holdings, of Yallourn Energy and GPEC.

The financial obligations of the Group, CAPCO and PSDC, and the Group's share of the financial obligations of the jointly controlled entities and associated company as at 31 December 2004 are shown on pages 42 and 43.

## Credit Rating

There has been no further change in credit ratings of CLP Holdings and CLP Power Hong Kong since the upgrade of both companies' foreign currency ratings from A3 to A1 by Moody's in October 2003. In September 2004, Fitch self-initiated to assign an A+ to the foreign currency and local currency ratings of CLP Holdings and CLP Power Hong Kong. The short term rating of both companies is F-1 and the outlook is stable.

## Credit Ratings of CLP Holdings and CLP Power Hong Kong

(as at 28 February 2005)

	CLP Holdings			CLP Power Hong Kong			HKSAR Government		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch	S&P	Moody's	Fitch
<b>Long-term Rating</b>									
Foreign currency	A+	A1	A+	A+	A1	A+	A+	A1	AA-
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Local currency	A+	Aa2	A+	A+	Aa1	A+	AA-	Aa3	AA+
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
<b>Short-term Rating</b>									
Foreign currency	A-1	P-1	F-1	A-1	P-1	F-1	A-1	P-1	F1+
Local currency	A-1	–	–	A-1	–	–	A-1+	–	–

As a result of our prospective acquisition of Singapore Power's merchant energy business in Australia, the credit rating agencies have put CLP Holdings' and CLP Power Hong Kong's ratings on review for possible downgrade. This follows their normal practice as the rating agencies are unable to make an assessment on a significant transaction until they have had a chance to review the transaction in detail. While the outcome of the review is uncertain, we are highly confident that our ratings will remain at high investment grade levels which support fund raising and investment, as well as provide financing flexibility for future growth and acquisitions.

## How did we do in 2004?

### CLP Group's Financial Obligations at a Glance

as at 31 December 2004

In recent years, market concerns have grown regarding the financial risks associated with borrowings and unconsolidated financial obligations of listed companies. It is our policy to adopt a prudent approach to such matters. The purpose of the following chart is to explain the total financial obligations of the CLP Group by classifying them into five categories according to their degree of recourse to CLP Holdings.

#### Category

<b>1</b>	<b>Borrowings of CLP Holdings &amp; principal subsidiaries</b>	Debts of the Company and its principal subsidiaries.
<b>2</b>	<b>Borrowings of CAPCO &amp; PSDC</b>	100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, which are further explained in the Scheme of Control Statement on pages 166 and 167 and Note 31 to the Accounts.
<b>3</b>	<b>Borrowings of Yallourn Energy &amp; GPEC</b>	Yallourn Energy and GPEC each became a subsidiary of the Group in April and June 2003 respectively. These debts are non-recourse to the Company.
<b>4</b>	<b>Share of debts of major affiliates*</b>	Share of debts of jointly controlled entities and an associated company. These debts are non-recourse to the Company and its subsidiaries.
<b>5</b>	<b>Contingent liabilities</b>	Contingent liabilities of the Company and its subsidiaries, arising from undertakings given to third parties. Details of these are set out in Note 30 to the Accounts.

\* In respect of Category 4, the share of debts are calculated by reference to the Group's shareholding in the relevant affiliated companies.

HK\$M

				2004 HK\$M	Total 2003 HK\$M
<p style="text-align: center;"><b>CLP Holdings</b> 2,206</p> <p>CLP Power Hong Kong: 8,642</p> <p>CLP Power Asia: 0</p> <p>CLP Property: 303</p> <p>HKNIC: 0</p> <p>CLP Power China: 0</p> <p>CLP Power International: 120</p>				11,271	10,646
<p>CAPCO: 9,585</p> <p>PSDC: 569</p>				10,154	10,360
<p>Yallourn Energy: 6,106</p> <p>GPEC: 1,397</p>				7,503	8,051
<p>SZPC (29.4%) CLP Guohua (49.0%) Shenmu (49.0%) Huaiji (41.5%) Guizhou CLP Power (70.0%) <b>Total: 6,145</b></p> <p>Ho-Ping (40.0%) EGCO (22.4%) BLCP (50.0%) <b>Total: 4,523</b></p> <p>GNPJVC (25.0%): 769</p>				11,437	11,815
<p>GPEC: 653</p>				653	3,934