Funding / Financing

We act prudently to ensure cash flow and credit facilities are adequate to meet business needs.

We finance our business expansions and capital expenditure programmes (in particular 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 2005, excluding the effect of changes in exchange rates, there was a net decrease in cash and cash equivalents of HK$393 million.

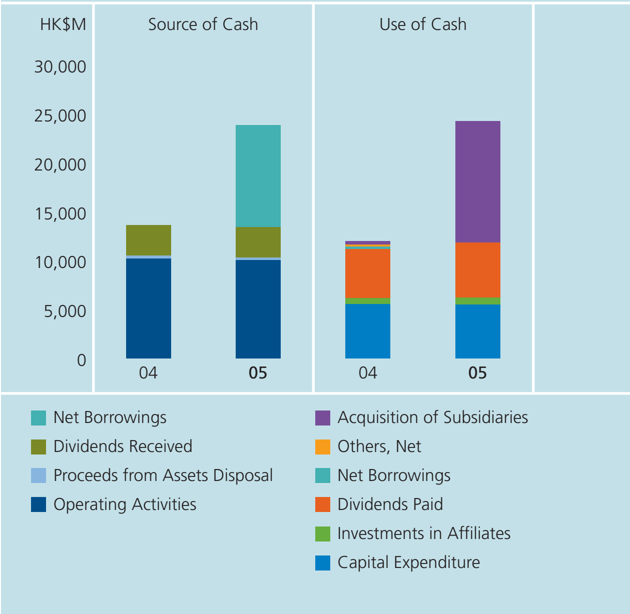
	2005 HK$M	2004 HK$M
Cash provided by/(used in):		
Operating activities	**10,046**	10,195
Investing activities	**(15,293)**	(3,250)
Financing activities	**4,854**	(5,300)
	(393)	1,645

Net cash provided by operating activities amounted to HK$10,046 million, mostly from our electricity businesses in Hong Kong and India. This reflects the strong business performance of CLP Power Hong Kong and continuing satisfactory collection of receivables by GPEC.

In 2005, cash used in investing activities amounted to HK$15,293 million. The major items included (i) acquisition of the MEB in Australia for a cash consideration of HK$13,013 million; (ii) capital expenditure of HK$5,204 million, which was mostly in fixed assets to provide supply and/or improve the reliability of services to our customers in Hong Kong and (iii) equity contributions to new power projects and advances to jointly controlled entities totalling HK$728 million. These outflow were partly offset by dividends received from investments and profits received from the Hok Un joint venture.

The Group increased its net borrowings by HK$10,441 million, mostly used to finance the acquisition of the MEB and investments in fixed assets. After deducting the cash used for payment of dividends, there was a net inflow from financing activities of HK$4,854 million.

Cash Utilisation



A strong Finance team

Financing

We adopt a prudent approach to all our financial arrangements, while at the same time aiming to achieve cost efficient funding.

In April 2005, CLP Holdings completed a HK$6 billion self-arranged medium term loan facility with 15 banks. CLP Holdings increased the limit of this loan arrangement to HK$6 billion from the original target of HK$4 billion upon favourable responses from the financial market, and utilised a HK$2 billion commitment amount to replace a higher-priced tranche of its existing loan facility. A portion of the financing was also used to fund part of the equity contribution related to the acquisition of the MEB. The new loan facility should provide CLP Holdings with ample liquidity to meet its investment needs over the next few years.

CLP Australia Finance Pty Ltd. (CLP Australia Finance), a wholly-owned subsidiary in Australia, completed a A$2.2 billion unsecured corporate loan facility and a A$250 million working capital facility in May 2005. The facilities were used to fund the balance of the purchase consideration payable upon the acquisition of the MEB, refinance the existing Yallourn's project finance facilities, and fund the working capital requirements for our business in Australia. The loans are non-recourse to CLP Holdings and Standard & Poor's (S&P) has assigned its "A-" credit rating to the A$2.2 billion unsecured debt facilities with stable outlook. In November 2005, CLP Australia Finance issued a total of A$700 million Australian domestic bonds under its A$2 billion EPN and Medium Term Note Programme. The issues consisted of A$650 million 7-year fixed and floating rate tranches and a A$50 million 10-year floating rate tranche. The financing was entered into to refinance a portion of the existing A$2.2 billion loan facility.

In 2005, CLP Power Hong Kong arranged HK$4 billion of new credit facilities in form of bond issuances and bank loan facilities. In January and June 2005, CLP Power Hong Kong issued two tranches of fixed rate notes due in 2015 of HK$500 million each, with coupon rates at 4.35% and 4.15% 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 2005, nominal value of about HK$5,340 million of notes have been issued under the MTN Programme. The remaining HK$3 billion of new financings were arranged with banks at attractive interest rate margins.

In January 2006, CLP Power Hong Kong issued another tranche of HK$1 billion fixed rate notes due in 2016 with a coupon rate at 4.75%.

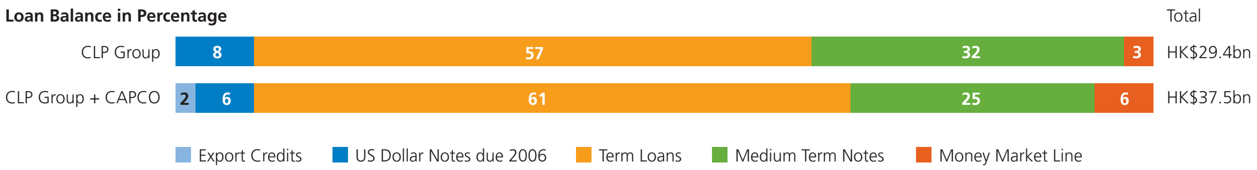
As at 31 December 2005, financing facilities totalling HK$42.5 billion were available to the Group, including HK$15.3 billion for TRUenergy and GPEC. Of the facilities available, HK$29.4 billion had been drawn down, of which HK$12.3 billion was by TRUenergy and GPEC. Facilities totalling HK$8.7 billion were available to CAPCO, of which HK$8.1 billion were drawn down.

Debt Profile

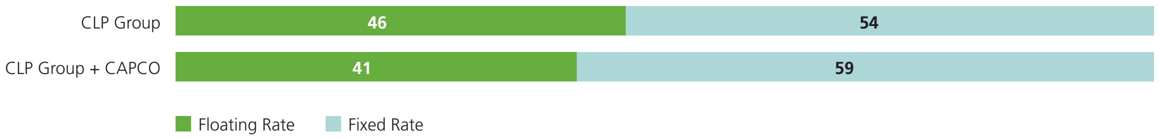
The charts below show the type, interest rate, maturity and currency profiles of borrowings of the Group and CAPCO at 31 December 2005:

Available Facility in Percentage (Note 1)

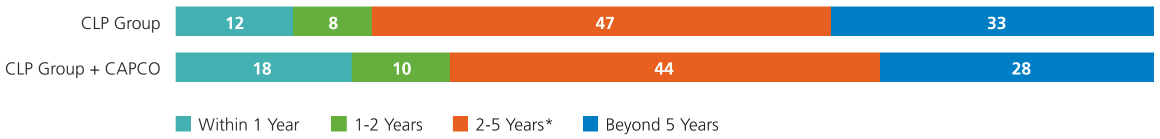
Loan Balance in Percentage



Interest Rate Base in Percentage

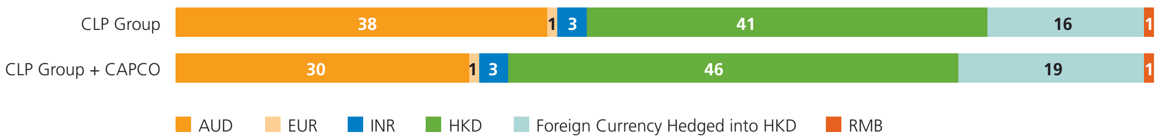


Maturity in Percentage



*Including loan drawdown with current tenor less than 1 year under revolving facility with final maturity falling between 2-5 years.

Currency in Percentage (Note 2)



Notes:

(1) For the Medium Term Note Programme, only the amount of the Notes issued as at 31 December 2005 was included in the total amount of Available Facility.

(2) The Australian dollar loans were drawn by CLP Australia Finance for our Australian business whereas the loans in Euros and Indian Rupees were drawn by GPEC. Loan in Renminbi was drawn for a China project.

Our total debt to capital as at 31 December 2005 was 36.9% (2004: 29.8%) and interest cover was 8 times (2004: 11 times). These financial ratios are also disclosed in our Ten-year Summary on page 193. The increase in borrowings as compared with 2004 was due to expansion of our Australian business through acquisition of the MEB.

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 2005 are shown on pages 44 and 45.

Credit Rating

In May 2005, S&P lowered the foreign currency and local currency corporate credit rating of CLP Holdings to "A" from "A+". S&P's downgrade of CLP Holdings' rating reflects its view of CLP Holdings' increasing business risk as a result of our international diversification efforts over the past few years and the increased level of debt following the acquisition of the MEB in Australia. At the same time, S&P affirmed its "A+" foreign currency and local currency credit rating on CLP Power Hong Kong. S&P noted that although the SoC was likely to be renegotiated with a potential lower rate of return, it expected that CLP Power Hong Kong's market position and financial performance would remain strong.

S&P also assigned its "A-" long-term credit rating to our Australian subsidiaries, namely CLP Australia Holdings Pty Ltd. and TRUenergy Pty Ltd. in May 2005. The outlook for all ratings is stable.

Moody's re-affirmed the foreign currency rating of CLP Holdings and CLP Power Hong Kong unchanged at "A1" in May 2005 and at the same time revised downward the local currency issuer rating of CLP Holdings and CLP Power Hong Kong to "A1" and "Aa3" from "Aa2" and "Aa1" respectively. This puts CLP Power Hong Kong on par with the HKSAR's local currency rating of "Aa3". The outlook for the ratings is stable. Moody's downgrade reflected its view of the increased overall business risk profile and financial leverage of CLP Holdings after the acquisition of the Australian MEB. Moody's continued to recognise the key credit strengths of strong and highly predictable cash flow generated from CLP Power Hong Kong, management's gradual approach to overseas expansion, and CLP Group's strong access to bank and capital markets. Both Moody's and S&P consider CLP Power Hong Kong to be an integral part of CLP Holdings with both ratings closely linked.

In July 2005, Moody's upgraded the foreign currency bond rating of CLP Power Hong Kong to "Aa3" from "A1" based on the view that foreign currency bonds subject to international law are less likely to be subject to a debt moratorium than foreign currency obligations subject to local law and hence the differential in the ratings on foreign currency bond and foreign currency issuer ratings.

Separately, Fitch affirmed its self-initiated long term foreign currency and local currency ratings of CLP Holdings and CLP Power Hong Kong at "A+" with stable outlook in October 2005. Fitch assigned a self-initiated new long term rating to CLP Australia Holdings and CLP Australia Finance at "BBB+" with stable outlook in October 2005.

The credit ratings of major companies within the Group as at 31 December 2005 are summarised below. All ratings remain at investment grade which can facilitate and enhance our position in local and overseas business activities, including fund raising, investment and new business opportunities.

	CLP Holdings		CLP Power Hong Kong		CLP Australia Holdings	HKSAR Government	
	S&P	Moody's	S&P	Moody's	S&P	S&P	Moody's
Long-term Rating							
Foreign currency	A	A1	A+	A1	A-	AA-	A1
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Local currency	A	A1	A+	Aa3	A-	AA-	Aa3
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Short-term Rating							
Foreign currency	A-1	P-1	A-1	P-1	–	A-1+	P-1
Local currency	A-1	–	A-1	–	–	A-1+	–