

# CLP and our Lenders

CLP could not operate without access to sufficient, reliable and long-term capital from our shareholders and lenders to finance the large-scale investment which our business demands and on which our future growth will be built.

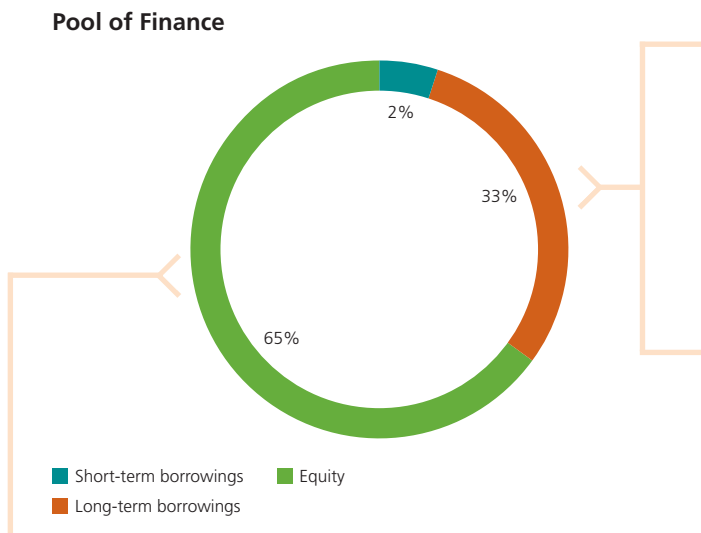
In this section we discuss our relationship with our lenders which, in this context, also include bondholders, credit rating agencies and all those associated with the provision of debt financing to the CLP Group. Some of what follows may be a little technical for readers not familiar with corporate finance. But the underlying principles are simple — as in our dealings with all our business partners we are committed to meeting our obligations fully and on time. And in the case of financial institutions, debt security investors and credit rating agencies, we strive to maintain positive and long-term relationships in order to obtain the right financial resources to help attain the Group's business objectives.

## Financing

At the end of December 2006, the Group maintained business relationships with more than 40 financial institutions in Hong Kong, Mainland China, Australia and Southeast Asia. The Hong Kong based operation and business expansion solicit borrowings from the bank and debt capital markets. We obtain short to long-term bank facilities from a group of creditworthy international and local banks on a competitive basis to diversify funding sources, maturities and to achieve cost efficient funding. In addition, CLP Power taps into the Hong Kong dollar and U.S. dollar debt capital markets under its Medium Term Note (MTN) Programme on a periodic basis to lock in fixed rate long-term funding via bond issuance.

Our subsidiaries and affiliates in overseas countries capitalise on the strong credit of CLP Holdings and the risk-balanced project structure to procure non-recourse debt facilities to finance their investments. Debt financings are provided by export credit and quasi-government agencies, banks and bond investors which have good credit, local market knowledge, capability to provide U.S. dollar and/or local currency funding at commercially acceptable terms and ability to share project risks.

### Pool of Finance



#### Group

As at 31 December 2006, financing facilities totalling HK\$42.5 billion were available to the Group, including HK\$16.2 billion for TRUenergy and GPEC. Of the facilities available, HK\$30.3 billion has been drawn down, of which HK\$12.2 billion relates to TRUenergy and GPEC.

#### CLP Power Hong Kong

In 2006, CLP Power Hong Kong arranged HK\$1.5 billion of new credit facilities in the form of bond issuances and bank loan facilities.

In January 2006, through its wholly-owned subsidiary CLP Power Hong Kong Financing Limited, CLP Power Hong Kong issued HK\$1 billion fixed rate notes due in 2016 with a coupon rate at 4.75%. This issue was made under the MTN Programme set up by CLP Power Hong Kong Financing Limited in 2002. Under the 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. At 31 December 2006, notes with a nominal value of about HK\$6,340 million were issued under the Programme. In addition, a bank loan of HK\$0.5 billion was drawn down at an attractive interest rate margin during the year.

In January 2007, CLP Power Hong Kong issued another tranche of HK\$1 billion fixed rate notes due in 2017 with a coupon rate at 4.38%.

#### Group

In 2006, the Group continued to use retained profits to partially fund business expansion.

Our total debt to capital ratio was 35.1% as at 31 December 2006 (2005: 36.7%).

## Debt Profile

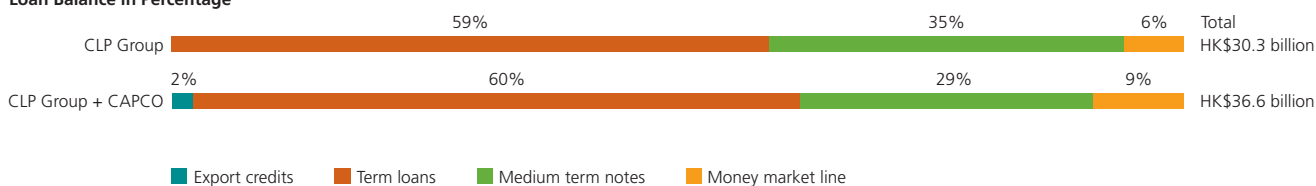
We aim to maintain diversified funding sources and maturity profile with an appropriate interest rate mix.

The charts below show the type, interest rate, maturity and currency profiles of borrowings of the Group and CAPCO at 31 December 2006:

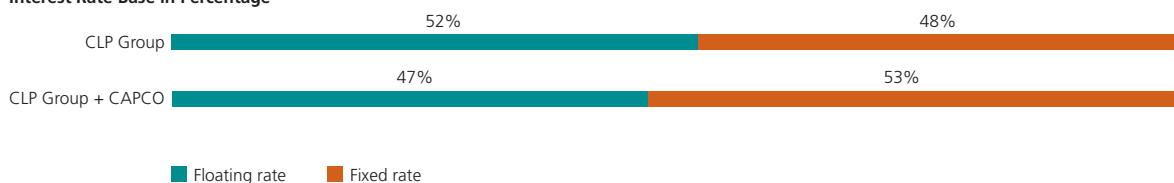
### Available Facility in Percentage (Note 1)



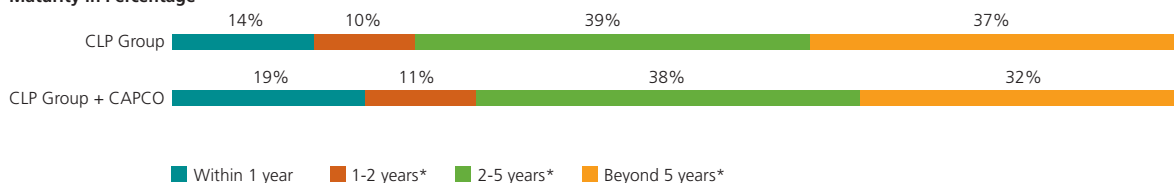
### Loan Balance in Percentage



### Interest Rate Base in Percentage

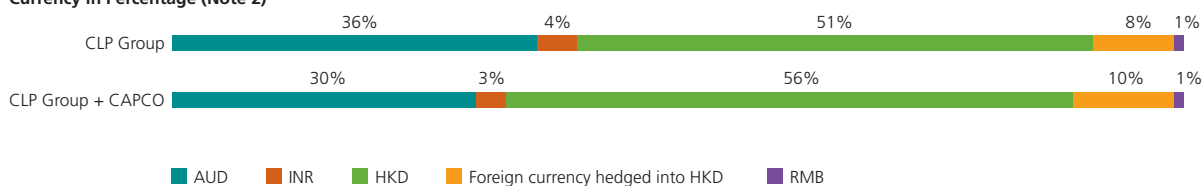


### Maturity in Percentage



\*Including loan drawdown with current tenor less than 1 year under revolving facility with final maturity falling beyond 1 year.

### Currency in Percentage (Note 2)



Notes:

- For the MTN Programme, only the amount of the Notes issued as at 31 December 2006 was included in the total amount of Available Facility.
- The Australian dollar loans were drawn by CLP Australia Finance Pty Ltd for our Australian business, whereas the loans in Indian Rupees were drawn by GPEC. The loan in Renminbi was drawn for a China project.

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 2006 are shown on pages 30 and 31.

## Interest Cover

Interest cover equals profit before income tax and interest divided by the sum of interest charges and capitalised interest.

In 2006, interest cover was 7 times (2005: 8 times). Other financial ratios are disclosed in our Five-year Summary on pages 196 and 197.

## Credit Rating

All ratings of the Group's major entities are at investment grade which can facilitate and enhance our position in local and overseas business activities, including fund raising, investment and new business opportunities. The credit ratings of major companies within the Group as at 31 December 2006 are summarised below.

	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
<b>Long-term Rating</b>							
Foreign currency	A	A1	A+	Aa3	A-	AA	Aa3
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Positive
Local currency	A	A1	A+	Aa3	A-	AA	Aa3
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Positive
<b>Short-term Rating</b>							
Foreign currency	A-1	P-1	A-1	P-1	–	A-1+	P-1
Local currency	A-1	–	A-1	–	–	A-1+	–

### CLP Holdings

In June 2006, S&P re-affirmed the long-term and short-term credit ratings of CLP Holdings. This reflects CLP Holdings' good financial profile, which is supported by good cash flows from our Hong Kong operations. S&P quoted in its credit rating reports that, although negative regulatory developments for CLP's Hong Kong operations could result in downward pressure on the rating, there is some scope for a modest reduction in the rate of return without a simultaneous reduction in credit rating, in view of CLP Power Hong Kong's good financial profile.

In July 2006, Moody's re-affirmed the long-term and short-term credit ratings of CLP Holdings. Moody's recognised CLP Holdings' solid liquidity profile, supported by the Group's strong access to domestic and international bank capital markets, as well as its well-managed debt maturity profile. At the same time, Moody's suggested that CLP Holdings' overall risk profile is tempered by the increasing financial leverage and business risks arising from the company's diversification initiatives and overseas expansion.

Fitch assigned its self-initiated long-term issuer default rating of A+ to CLP Holdings with stable outlook in February 2006.

### CLP Power Hong Kong

In May 2006, Moody's upgraded CLP Power Hong Kong's foreign currency issuer rating from A1 to Aa3, thereby matching CLP Power Hong Kong's local currency rating and foreign currency bond rating. This followed Moody's examination of corporate sector ratings throughout the Asia-Pacific region in light of a revision of its rating methodology for "Foreign-Currency Ceilings".

S&P and Moody's re-affirmed the long-term and short-term credit ratings of CLP Power Hong Kong in June and July 2006 respectively.

Fitch assigned its self-initiated long-term issuer default rating of A+ to CLP Power Hong Kong with stable outlook in February 2006.

### CLP Australia Holdings

S&P also re-affirmed the long-term credit ratings of CLP Australia Holdings Pty Ltd in June 2006.

Fitch assigned its self-initiated long-term issuer default rating of BBB+ to CLP Australia Holdings Pty Ltd with stable outlook in February 2006.

During 2006, CLP's prudent approach to borrowings ensured that we were able to meet all our commitments to our lenders fully and on time, secured adequate financing to support our operations and investments and preserved the capacity to continue to access the financial markets in the coming years for further funding to support future investments.