

Rating Action: Road King Infrastructure Limited

MOODY'S DOWNGRADES ROAD KING'S RATINGS TO Baa3; OUTLOOK STABLE

Approximately US\$200 Million in Debt Securities Affected

Hong Kong, September 27, 2005 -- Moody's Investors Service has today downgraded to Baa3 from Baa2 the issuer rating of Road King Infrastructure Ltd (Road King) and similarly to Baa3 from Baa2 the senior unsecured rating for the bond issued by Road King Infrastructure Finance (2004) Ltd. This rating action concludes the review for possible downgrade initiated on 24 August 2005.

The ratings downgrade reflects Road King's increased financial and business risks, resulting from its shift in strategy to investing in property development projects in China. The rating agency regards such developments as demonstrating significantly greater business risk than Road King's existing toll road business. In addition, the investment in such projects will result in higher-than-expected gearing levels. During the next two years, total debt/gross cash flow is expected to be around 3x, a level at which Moody's had said it would consider a downgrade when Road King's ratings were first assigned.

The company has so far acquired three pieces of land for a total contracted value of about HKD1.1bn. While invested capital in property now represents 11% of total assets, the level will inevitably increase and could reach about 20% by year-end. While Road King may still invest in new property projects, when the right opportunities appear, Moody's does not expect future acquisitions to be as large as the RMB700m land acquisition in Changzhou, Jiangsu Province. Furthermore, some of these projects will be developed in phases in order to conserve financial resources. As a result, Moody's expects Road King's property exposure, at its peak, to reach up to 30-35% of the group's total assets.

Other credit challenges that Road King face include: 1) evolving business risk as new investments in property and toll roads continue -- some projects potentially involve construction and ramp-up risks, and 2) uncertainty over regulatory risk and toll rates adjustments.

On the other hand, Road King's Baa3 rating remains supported by 1) its diversified portfolio of 21 operating toll roads across 8 provinces in China; such diversification mitigates to a certain extent its exposure to regulatory and policy risk in China, 2) consistent steady growth in the traffic and revenue of its toll roads in the last few years, and 3) the expectation that these investments will continue to benefit from economic growth, urbanisation and increased vehicle ownership in China. Despite the lack of full control or ownership over these toll roads, a good track record of steady cash flow contributions to Road King is apparent. It has over 10 years of experience in toll road investments, and Moody's expects toll roads will remain the company's core business going forward. The ratings agency draws further comfort that Road King's capex plan for its toll road investments has been cautious and total toll road capex in the next 3 years is unlikely to exceed RMB3bn.

The stable outlook reflects Road King's sound financial profile with interest coverage to remain well over 4x in the next few years. It also exhibits a healthy debt maturity profile and liquidity position. Short-term debt of HKD211m as of June 2005 is covered by cash on hand and undrawn committed facilities.

Moody's will consider a ratings upgrade if Road King achieves sustainable improvements in its credit metrics - by growing its recurring cash flow from its toll road operation and/or repaying debt from free cash flow generation, such that total debt/gross cash flow falls below 2x while containing its exposure to the property business at 10% of total assets.

Conversely, the rating may experience further downward pressure if Road King increases its exposure to property or other additional non-core business to over 35% of total assets consistently, or pursues more aggressive debt-funded investments with total debt/gross cash flow exceeding 3.5-4x.

Road King Infrastructure Ltd is a Hong Kong-listed company with primary investments in toll road projects in China. The company was established in 1993 and is one of the largest toll road owner-operators on the Mainland with total investments of RMB6.3bn as of June 2005. Road King's toll road investments are spread over 8 provinces: Guangdong, Anhui, Guangxi, Hebei, Henan, Hunan, Jiangsu and Shanxi.

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