

## RESEARCH

## Research Update:

**Road King Infrastructure Ltd. Placed On Watch Neg On Chinese Real Estate Expansion Plans**

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On Jan. 26, 2007, Standard & Poor's Ratings Services placed the 'BB+' long-term corporate credit rating on Road King Infrastructure Ltd. (RKI) on CreditWatch with negative implications. At the same time, the 'BB+' issue rating on the company's senior unsecured notes was also put on Credit Watch with negative implications. The CreditWatch placements are due to concerns that the company's credit measures and business profile will weaken as a result of its plan to increase its investment in a Chinese real-estate developer, Sunco Binhai Land Ltd. (Sunco A).

RKI's financial profile and liquidity are expected to be negatively affected by the proposed acquisition of an additional 41.2% stake in Sunco A and by the consolidation of 100% of the company. Sunco A's financial position is weak. As at June 30, 2006, it had RMB70.5 million in cash and deposits against RMB381 million in borrowings due within one year. Sunco A's financial profile is, however, likely to have strengthened following RKI's initial investment and a group restructuring in October 2006. RKI's equity investment in Sunco A totals about RMB445 million, excluding the proposed transaction.

RKI's financial metrics could weaken materially in the next six to 18 months as the company funds the proposed transaction, in addition to operational liquidity, property development activities, and toll-road operations. Depending on the nature of any required financing, RKI's ratio of debt to capitalization could increase significantly from the fairly low level of 26% as of June 30, 2006. RKI had an unrestricted cash balance of about HK\$726 million at the end of June 2006.

RKI's business profile is also under review as the company appears to be adopting a more aggressive stance towards investing in property development in China. The company's asset mix is becoming increasingly weighted towards property development rather than toll-road operations. Standard & Poor's views RKI's property development risk as higher than that of its toll-road investments.

The CreditWatch placement indicates that the rating on RKI may fall below 'BB+', pending a full review of the company's current and proposed property development portfolio and full information regarding its financing and capital investment plans. The rating may be lowered if the company's financial metrics significantly weaken, with the ratio of funds from operations to total debt consistently below 20%. RKI's stable toll-road business, however, is expected to provide consistent recurring cash flow to the group and limit downward rating pressure.

**Ratings List**

## CreditWatch/Outlook Action

	To	From
Road King Infrastructure Ltd.		
Corporate Credit Rating	BB+/Watch Neg/--	BB+/Stable/--
Senior Unsecured		
Foreign Currency	BB+/Watch Neg	BB+

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