

Rating Action: Moody's upgrades Kowloon-Canton Railway; outlook stable

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Approximately USD1.71 billion of debt affected

Hong Kong, November 11, 2010 -- Moody's Investors Service has upgraded Kowloon-Canton Railway Corporation's ("KCRC") issuer and debt ratings to Aa1 from Aa2 following the upgrade of the Hong Kong Special Administration Region's ("HKSAR") sovereign ratings to Aa1/Positive from Aa2 under review for possible upgrade..

The ratings outlook for KCRC is stable.

RATINGS RATIONALE

"As a government related issuer, KCRC's ratings incorporate a high level of support from the Hong Kong SAR government, given the latter's 100% ownership and KCRC's own strategic role in Hong Kong's transportation policy," says Peter Choy, a Moody's Vice President and Senior Credit Officer.

"Accordingly, the upgrade of HKSAR's sovereign ratings to Aa1 from Aa2 has led to a corresponding rating upgrade on KCRC," says Choy,

KCRC's Aa1 rating is based on (1) the company's underlying strength -- Baseline Credit Assessment (BCA) of "8", which is equivalent to a Baa1 rating on Moody's global scale, and (2) the expected high level of support from the HKSAR government in the event of stress.

The standalone BCA of Baa1 reflects (1) KCRC's strategic role as the owner of its existing rail assets; (2) its stable concession income of HKD750 million annually and its share of revenue from MTRC, and which involves no operating risk; (3) the cap on its capital expenditures; and (4) the weakened state of its financial profile due to the merger with MTR Corporation Limited.

The high level of government support results in the rating uplift to the final Aa1 level.

The stable rating outlook reflects Moody's expectation that KCRC stays supervised by the HKSAR government and maintains an acceptable financial profile, even though -- as stated -- it has weakened after the merger. At the same time, upward rating pressure would be unlikely given the current BCA, meaning that upgrade in the HKSAR's sovereign ratings would not result in any change in the ratings of KCRC.

The ratings could be downgraded if the ratings of the HKSAR are downgraded, or if there is a material deterioration -- a scenario that is unlikely in the near term -- in KCRC's own financial position.

The last rating action was taken on 11 October 2010 when the outlook of KCRC's issuer and senior unsecured debt ratings were placed under review for possible upgrade after Moody's placed on review for possible upgrade the sovereign ratings of the Hong Kong SAR government.

The principal methodology used in this rating was Government Owned Rail Network Operators published in April 2009.

Kowloon-Canton Railway Corporation, a corporation established under the Kowloon-Canton Railway Corporation Ordinance on 24 December 1982 and wholly owned by the HKSAR government, has a railway network of more than 120 kilometers.

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