

**Letterhead of *Moody's Investors Service***

*99 Church Street  
New York, New York 10007*

December 3, 1999

The Honorable Mrs. Miriam LAU Kin-ye,  
Chairman of the Bills Committee  
Bills Committee on Mass Transit Railway Bill  
3/F Citibank Tower  
Garden Road  
Hong Kong

Dear Honorable Mrs. LAU:

This letter is in response to your request to comment on the potential impact of the "Mass Transit Bill", a bill to allow the partial privatization of the Mass Transit Railway Corporation (MTRC), on the MTRC's bond rating.

It is our view that if the credit considerations which underpin the rating on the corporation's debt will not be significantly altered by the proposed partial privatization of the corporation, as allowed for in the "Mass Transit Bill", there will be no impact on MTRC's bond rating.

Key credit factors supporting the rating include:

- The close links between the railway corporation and the HKSAR as indicated by (1) the government's majority share ownership in the corporation; (2) the government's strong interest in supporting the corporation if necessary given the essential nature of the system to Hong Kong's economy and in order to avoid any unfavorable change in market perception towards the HKSAR; (3) the government's power to designate members of the governing board.
- The inherent strong fiscal and debt characteristics of the corporation. Contributing to positive fiscal trends in the past have been the requirement that the corporation operate according to "prudent commercial principals", the use of conservative budgeting practices, the fare setting mechanism which has led to the periodic adjustments of fares, the strong service area, and the corporation's dominant market share.

We will continue to monitor the privatization process including the final Bill, Operating Agreement, and any other documents relevant to the regulatory framework, in order to determine whether the ultimate structure of the new corporation affects its credit risk profile.

Thank you for your expression of interest in our opinion.

Sincerely,

Debra Roane  
Vice President/Senior Credit Officer