

Lianhe Global downgrades China Aoyuan Group Limited’s global scale Long-term Issuer Credit Rating and Issuance Credit Rating to ‘BB-’ from ‘BB+’; Issuer Rating Outlook Revised to Negative

HONG KONG, 12 November 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has downgraded the global scale Long-term Issuer Credit Rating of China Aoyuan Group Limited (3883.HK) (“Aoyuan” or “the company”) to ‘BB-’ from ‘BB+’. The Outlook is revised to Negative.

Lianhe Global has also downgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by Aoyuan to ‘BB-’ from ‘BB+’. A full list of issuance ratings is included in this press release.

Key Rating Rationales

The Issuer Rating downgrade to ‘BB-’ reflects Aoyuan’s increasing liquidity pressure, as it faces a maturity wall in both the onshore and offshore capital markets in the next 12 months (with a sizeable amount in the next 3 months). The Issuer Rating also reflects Aoyuan’s leading market position and brand recognition in the Chinese property market which is underpinned by its sizable quality land bank. However, Aoyuan’s rating is constrained by its high financial leverage and reliance on joint ventures and associates to expand operating scale while managing project risks which give rise to concerns and uncertainties on financial transparency and cash flow control ability.

The Negative Outlook on Aoyuan’s rating reflects our expectation of Aoyuan’s deterioration access to financing channels and increasing refinancing risk. We would revise the Rating Outlook to Stable when the company has demonstrated its capability to manage its maturing financial obligations in the near to medium terms.

Rating Sensitivities

We would consider downgrading Aoyuan’s rating if it were to aggressively replenish its land bank which results in an increase of its financial leverage as measured by debt/capitalization to over 75% or a decrease in its EBITDA interest coverage to below 1.5x consistently, and/or its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

An upgrade is unlikely given the negative outlook on Aoyuan. However, if Aoyuan’s liquidity position were to exhibit an improvement and Aoyuan is able to demonstrate the ability to manage its financial obligations in the near to medium terms, we may consider changing its rating and revising its outlook to stable. Additionally, we would consider upgrading Aoyuan’s rating if it were to (1) considerably increase its operating scale, and (2) maintain its financial

leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 3.0x consistently.

Any rating action on Aoyuan's rating would result in a similar rating action on its USD notes.

Full List of Issuance Ratings

- USD460 million 6.35% senior unsecured notes due 2024 downgraded to 'BB-' from 'BB+'
- USD230 million 5.98% senior unsecured notes due 2025 downgraded to 'BB-' from 'BB+'
- USD200 million 7.95% senior unsecured notes due 2024 downgraded to 'BB-' from 'BB+'

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this Aoyuan's rating is Lianhe Global's General Corporate Rating Criteria published on 16 July 2018 which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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