

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Positive Outlook to Yancheng High-tech Zone Investment Group Corporation Limited

HONG KONG, 7 March 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Yancheng High-tech Zone Investment Group Corporation Limited (“YHZIG”). The Outlook is Positive.

The Issuer Credit Rating reflects a high possibility that the Yancheng municipal government would provide strong support to YHZIG if needed, in light of YHZIG’s strategic position as the major developing and operating body of Yancheng High-tech Zone and the strong linkage between the Yancheng municipal government and YHZIG including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yancheng municipal government may face significant negative impact on its reputation and business and financing activities should YHZIG encounter any operational or financial difficulties.

The Positive Outlook reflects our expectation that YHZIG’s importance would be strengthened given its strategic development role, while the Yancheng municipal government will continue to support YHZIG to ensure its stable operation.

Key Rating Rationales

Yancheng Municipal Government’s Full Ownership: The Yancheng municipal government has 100% ownership of YHZIG and it is the only shareholder of YHZIG. Its registered capital was enlarged to RMB3 billion at end-September 2021 after the last capital injection of RMB2.5 billion in October 2015.

High Strategic Importance: YHZIG is one of Yancheng’s major LGFVs and has undertaken various functions including infrastructure construction, primary land development and property leasing and management businesses to support the economic development primarily in the Yancheng High-tech Zone. In the future planning of the Yancheng municipal government, YHZIG will continue to be responsible for construction-related projects.

The Yancheng High-tech Zone Administrative Committee has recognized YHZIG’s leading role as the sole provider and platform for infrastructure construction, investment and financing within the Yancheng High-tech Zone. The scope of business of YHZIG is relatively consistent and demand for its services is expected to be stable given the macroeconomic environment of the Yancheng High-tech Zone.

Government Supervision and Strategic Alignment: The Yancheng municipal government has strong control and supervision over YHZIG, including control of the board of directors,

senior management appointments, major strategic, investment and financing planning. YHZIG's business operation and development have been aligned with the government's economic and social policies.

Ongoing Government Support: YHZIG has received strong support from the government such as government subsidies, capital injections and financial support. The Yancheng municipal government has purchased a considerable amount of the completed infrastructure projects from YHZIG during the past three years. YHZIG is expected to continue receiving repayment from the government in the future from the projects completed and projects under development.

Moderate Economic and Fiscal Strength of Yancheng: Yancheng's GDP growth further slowed to 3.5% in 2020, compared with Jiangsu's 3.7% and China's 2.3%. Yancheng's economic growth in 2020 was mainly fueled by the tertiary industry, which accounted for 48.9% of Yancheng's total GDP and reported a growth rate of 7.5% in 2020.

In 2020, Yancheng reported a budget deficit of 143.5% largely due to increased expenditure to combat the pandemic. Yancheng's budget deficit was the second largest among all municipal cities in Jiangsu Province in 2020. It has also relied on government transfer payment and funds from other sources such as funds transferred from the Central Budget Stabilization Fund. Yancheng's local government debt totaled RMB137 billion and its debt ratio (i.e. total government debt divided by aggregate revenue) improved to 96.9% at end-2020 (compared with 106.9% at end-2019).

Moderately Weak Financials: YHZIG's earnings generation capability has been weak given its focus on contracting construction. YHZIG's financial leverage (total liabilities to assets) was moderately high at around 69.0% in recent years. YHZIG has access to financing channels such as bank loans, non-bank loans and issued bonds etc. to support its debt repayment and business operation. RMB17.3 billion of its outstanding debt will be due within one year at end-September 2021, compared with YHZIG's unrestricted cash of RMB7.5 billion and available credit lines of RMB9.8 billion.

Rating Sensitivities

We would consider downgrading YHZIG's rating if (1) there is perceived weakening in support from the Yancheng municipal government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Yancheng municipal government's ownership of YHZIG, or (3) there is a downgrade in our internal credit assessment on the Yancheng municipal government.

We would consider upgrading YHZIG's rating if (1) there is strengthened support from the Yancheng municipal government, or (2) there is an upgrade in our internal credit assessment on the Yancheng municipal government.

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 YHZIG's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, 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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