

# Chengdu Dongjin Huaizhou Xincheng Investment Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	7 February 2023

### Key Figures of Jintang and CDHXI (RMB billion)

	2020	2021
<b>Jintang</b>		
GDP	46.9	52.4
GDP growth rate (%)	5.8	9.0
Budgetary revenue	3.9	4.2
Government fund	5.0	5.7
Transfer payment	3.8	3.5
Budgetary expenditure	6.5	6.9
<b>CDHXI</b>		
Assets	72.0	82.4
Equity	39.9	45.8
Revenue	3.5	3.5

Source: Jintang government, Finance Bureau of Jintang, CDHXI and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Dongjin Huaizhou Xincheng Investment Group Co., Ltd. (“CDHXI” or “the company”)

### Summary

The Issuer Credit Rating reflects the People’s Government of Jintang District’s (“Jintang government”) full ownership of CDHXI, CDHXI’s strategic position as the core construction and operation entity responsible for project construction and management, residential construction and infrastructure construction and operation in Jintang District (“Jintang”), especially in Huaizhou Xincheng Functional Area (“Xincheng”) as well as the linkage between the Jintang government and CDHXI, hence a high possibility that the Jintang government would provide strong support to CDHXI if needed. In addition, the Jintang government may face significant negative impact on its reputation, business and financing activities should CDHXI encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that CDHXI’s strategic importance would remain intact while the Jintang government will continue to ensure CDHXI’s stable operation.

### Rating Rationale

**Importance to Jintang and Strategic Alignment:** CDHXI is a core construction and operation entity responsible for project construction and management, residential construction and infrastructure construction and operation in Jintang. CDHXI mainly undertakes urban comprehensive development in Xincheng. It also plays an important role in promoting the development strategy of Chengdu’s “Eastward” development theme, optimizing industrial resource allocation, and improving industrial operation efficiency in the region. CDHXI’s main business focuses on engineering construction, supplemented by building materials sale, transportation operation, and other business. CDHXI’s strategic and development plan have been aligned with the government’s strategy plan, aiming to promote the comprehensive urban development in Jintang and Xincheng.

**Jintang Government’s Full Ownership:** The Jintang government holds 100% stake of CDHXI through the State-owned Assets Supervision, Administration and Finance Bureau of Jintang County, Chengdu City (“Jintang SASAFB”). The Jintang government is the ultimate controller of the company.

**Government Support:** CDHXI received supports from the local government for its business operation historically, including asset and equity transfers and government subsidies. CDHXI received several supports in the form of state-owned asset transfers and equity transfers through its shareholder in past three years. In addition, CDHXI received financial subsidies of RMB2.1 billion from the local government between 2019 and the first six months of 2022, mainly for supporting its business operation. We believe CDHXI is likely going to receive government support.

**Moderate Financials and Weak Liquidity Position:** CDHXI’s total assets showed a continuous growth trend in past three years and reached RMB82.4 billion at end-June 2022.

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

The financial leverage (total liabilities to assets) and total debt capitalization ratio of CDHXI were 44.3% and 35.0% at end-June 2022, respectively. The total adjusted debt of CDHXI slightly increased from RMB23.3 billion at end-2021 to RMB24.8 billion at end-June 2022, mainly due to the increase in long-term payables. CDHXI's liquidity was tight as it had a cash balance of approximately RMB0.9 billion and unused credit facilities of RMB3.3 billion at end-June 2022, compared with its outstanding debt of c. RMB5 billion to be due within one year. CDHXI has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. CDHXI has access to financing channels including bank borrowings and non-traditional financing channels such as trust loan and finance lease etc.

**Economy and Moderate Fiscal Strength of Jintang:** Jintang realized GDP of RMB52.4 billion in 2021, representing a year-on-year growth rate of 9.0%. Jintang's GDP was mostly fueled by secondary and tertiary industries, accounting for 39.0% and 47.8% of its total GDP in 2021, respectively. Jintang's population reached c. 0.8 million with an urbanization rate of c. 42% in 2021.

The Jintang government's budgetary revenue increased steadily in the past three years, mainly due to the increase of non-tax revenue such as income from state-asset operation and paid right of use for state-asset. The tax revenue accounted for 41.9% of the budgetary revenue in 2021, down from 48.3% in 2020 as a result of the related tax-advantaged policies. The budget deficit of Jintang government improved in 2021. The fiscal self-sufficiency rate of the Jintang government was moderately high (c. 61% in 2021) but still insufficient, hence it continuously received a certain number of subsidies from higher government authorities. The revenue from the government-managed fund increased to RMB5.7 billion in 2021 from RMB5.0 billion in 2020. The Jintang government's debt ratio (total debt outstanding/aggregate fiscal revenue) was relatively high in 2021, due to the increase of total debt outstanding from RMB14.0 billion at end-2020 to RMB17.4 billion at end-2021, which was mainly caused by the increase of government special debt.

### Rating Sensitivities

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

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

## Operating Environment

### Economic Conditions of Jintang

Jintang is located in the northeast of Chengdu and it is one of the districts of Chengdu with a total land area of 1155.6 square kilometers. Jintang has jurisdiction over 6 streets and 10 towns. It is a key development county in the "Chengdu Plain Economic Circle" and a "Special Industry Development Zone" in Chengdu, and is one of the top 100 counties in Western China in 2021. Jintang realized GDP of RMB52.4 billion in 2021, representing a year-on-year growth rate of 9.0%. Its GDP scale were ranked 13<sup>th</sup> among the 20 jurisdictions of Chengdu, while the GDP growth rates in the past three years are higher than that of China and Chengdu's average. Jintang's GDP was mostly fueled by secondary and tertiary industries, accounting for 39.0% and 47.8% of its total GDP in 2021, respectively. Jintang's population reached c. 0.8 million with an urbanization rate of c. 42% in 2021.

Jintang has three major industrial functional areas: Xincheng, Tianfu Water City and Jintang Edible Mushroom Industrial Park, of which Xincheng is the main development focus of Jintang County. Two provincial industrial parks, Cheng'a Industrial Park and Jintang Industrial Park, have been built in Xincheng to promote the industrial upgrading and development in the region. Jintang has continued to integrate into the industrial layout of the twin-city economic circle in the Chengdu-Chongqing region and has actively explored the development direction of Chengdu's "Eastward" theme, where Xincheng has played the role of the main force to implement and follow up related development strategies.

<b>Jintang's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
GDP	44.0	46.9	52.4
-Primary industry (%)	9.7	14.1	13.2
-Secondary industry (%)	40.2	38.7	39.0
-Tertiary industry (%)	50.1	47.2	47.8
GDP growth rate (%)	8.7	5.8	9.0
Fixed asset investment	32.5	36.7	37.2
Fixed asset investment growth rate (%)	11.6	12.8	19.3
Population (million)	0.7	0.8	0.8

*Source: Jintang government and Lianhe Global's calculations*

### Fiscal Conditions of Jintang

The Jintang government's budgetary revenue increased steadily in the past three years with growth rates of 3.4%, 8.7% and 8.7% in 2019, 2020 and 2021, respectively, mainly due to the increase of non-tax revenue such as income from state-asset operation and paid right of use for state-asset. The tax revenue accounted for 41.9% of the budgetary revenue in 2021, down from 48.3% in 2020 and 51.8% in 2019 as a result of the related tax-advantaged policies. The improvement of budgetary revenue has in turn helped to mitigate the budget deficit, which improved to -63.9% in 2021 from -89.1% in 2020. The fiscal self-sufficiency rate of the Jintang government was moderately high (c. 61% in 2021) but still insufficient, hence it continuously received a certain number of subsidies from higher government authorities.

As another substantial component of the local fiscal revenue, the revenue from the government-managed fund increased to RMB5.7 billion in 2021 from RMB5.0 billion in 2020 despite the downturn in real estate market and rigorous regulations. However, we believe the sustainability of government-managed fund and transfer payments is less predictable

and is subject to changes in relevant policies such as regulators' stance towards the property market, higher governments' subsidy policies, land transfer planning, etc. The Jintang government's debt ratio (total debt outstanding/aggregate fiscal revenue) was relatively high in 2021, due to the increase of total debt outstanding from RMB14.0 billion at end-2020 to RMB17.4 billion at end-2021, which was mainly caused by the increase of government special debt.

<b>Jintang's Fiscal Conditions</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Budgetary revenue	3.6	3.9	4.2
Budgetary revenue growth rate (%)	3.4	8.7	8.7
Tax revenue	1.8	1.9	1.8
Tax revenue (% of budgetary revenue)	51.8	48.3	41.9
Government fund income	5.3	5.0	5.7
Transfer payment	2.8	3.8	3.5
<b>Aggregate revenue</b>	<b>11.7</b>	<b>12.7</b>	<b>13.4</b>
Budgetary expenditure	6.7	6.5	6.9
Budget deficit <sup>1</sup> (%)	-89.1	-67.3	-63.9

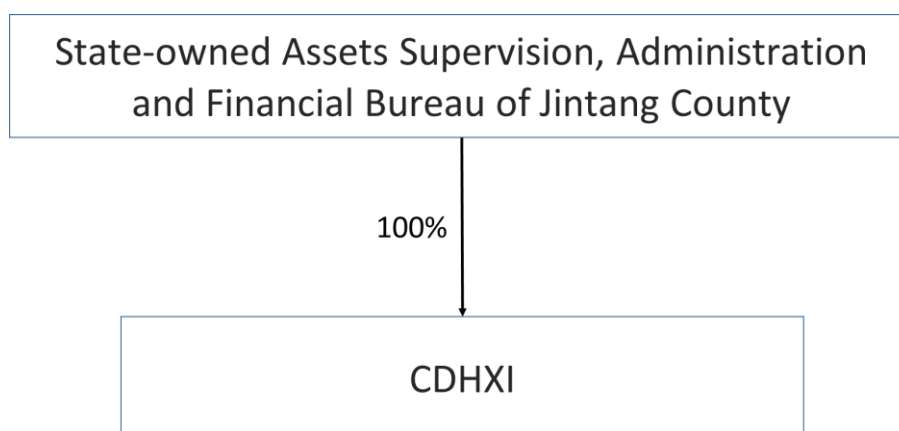
<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%  
 Source: Finance Bureau of Jintang and Lianhe Global's calculations

## Ownership Structure and Profile

### Government's Ownership and Shareholders

CDHXI, initially named as Chengdu Xingjin Industry Investment Co.[成都兴金产业投资有限责任公司], was established in January 2018 under the approval of Jintang County State-owned Assets Management Committee ("Jintang SAMC") with an initial registered capital of RMB100 million, while the paid-in capital was RMB100 million at that time, wholly contributed by Jintang SAMC in the form of currency. In February 2018, the company's name was changed to Chengdu Xingjin Industry Investment Group Co., and was further changed to CDHXI in 2020. The shareholder's name was changed to Jintang SASAFB in August 2019 and has remained so as of end-June 2022. Jintang SASAFB, as the sole shareholder, is the controlling shareholder and the actual controller of CDHXI as of end-June 2022.

The shareholding structure of CDHXI at end-June 2022:



Source: CDHXI

The main subsidiaries of CDHXI at end-June 2022:

	Name	Registered Capital (RMB million)	Holdings Proportion (%)
1	Chengdu Livable Water City Urban and Rural Transportation Construction Investment Co., Ltd	1,500.00	100.00
2	Chengdu Garden Water City Urban and Rural Construction Investment Co., Ltd	1,000.00	100.00
3	Jintang Xingjin Development and Construction Investment Co., Ltd	690.00	100.00
4	Jintang Xingjin Industrial Investment Co., Ltd	500.00	100.00
5	Jintang Xinyao Construction Investment Co., Ltd	150.00	100.00
6	Chengdu Huaizhou New City Hub Station Investment Operation Management Co., Ltd	490.00	100.00
7	Chengdu Jinying Investment Co., Ltd	540.00	92.59
8	Chengdu Zhijin Science and Innovation Service Co., Ltd	272.65	36.68

Source: CDHXI and Lianhe Global

## Strategic Importance and Government Linkage

### Importance of CDHXI to Jintang

CDHXI is one of the core operating entities for project construction and management, residential construction and infrastructure construction and operation in Jintang. CDHXI is mainly focusing on the urban comprehensive development in Jintang and Xincheng. It also plays an important role in promoting the development strategy of Chengdu's "Eastward" development theme, optimizing industrial resource allocation, and improving industrial operation efficiency in the region.

### Linkage with the Jintang Government

The Jintang government holds 100% stake of CDHXI through the Jintang SASAFB and it is the ultimate controller. CDHXI's strategic and development plan have been aligned with the government's strategy plan, aiming to promote the development of urban community in Jintang and Xincheng.

### Government Support

CDHXI received supports from the local government for its business operation, including asset and equity transfers and government subsidies. CDHXI had received government supports in the form of asset transfers, such as allocation of sand and gravel operating rights (amounted to RMB4.6 billion) in 2021 and other kinds of state-owned asset since its establishment. In addition, the Jintang SASAFB transferred several firms' equities, such as 100% of Jintang County Xin Yao Construction Investment Co.'s equity etc., to CDHXI in 2020 and 2021.

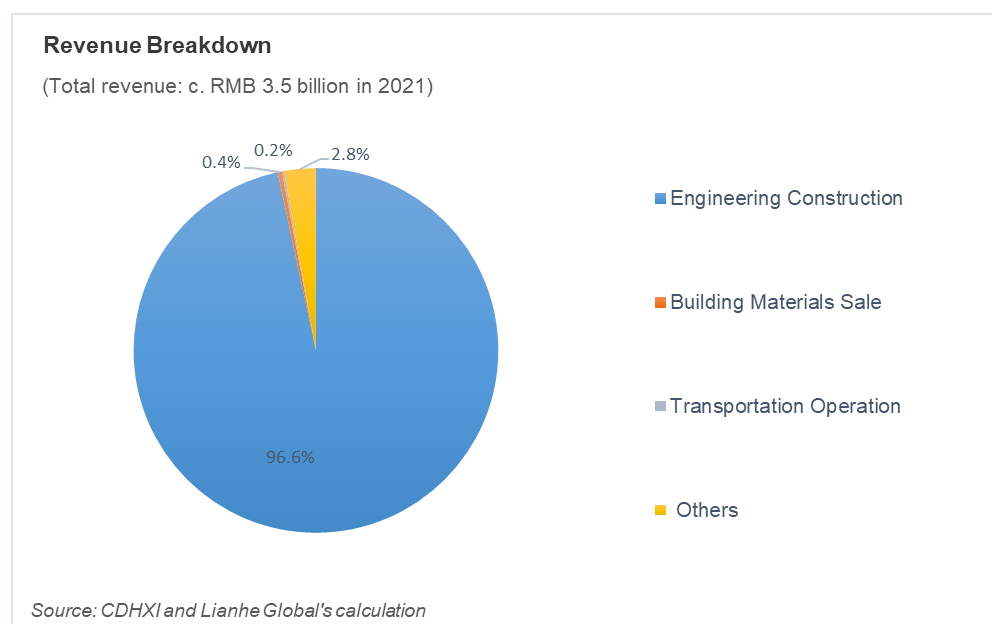
CDHXI received constant financial subsidies from the local government, mainly for supporting its business operation. CDHXI received a total of approximately RMB2.1 billion of government subsidies between 2019 and the first six months of 2022. We believe CDHXI is likely going to receive government supports in the future.

## Business Profile

### One of the Core Operating Entities Responsible for Engineering Construction in Jintang, especially in Xincheng

CDHXI is the core construction and operation entity in Jintang, especially in Xincheng, responsible for project construction and management, residential construction and infrastructure construction and operation. CDHXI mainly carries out businesses through itself and its subsidiaries, including project construction, building materials sales, transportation operation and other businesses such as storefront transfer and land transfer.

The total revenue of CDHXI was approximately RMB2.9 billion, RMB3.5 billion, RMB3.5 billion and RMB2.2 billion in 2019, 2020, 2021 and for the first six months of 2022, respectively. The company's overall gross margin declined to 11.6% for the six months of 2022 from 17.6% in 2020 largely due to the declining margin in the project construction. The revenue generated from engineering construction segment, including project construction and management, residential construction and infrastructure construction and operation, accounted for more than 95% of its total revenue in 2021 and the first six months of 2022. Thus, the performance of this segment has highly affected its total revenue's scale, while the revenue recognition schedule of agent construction related projects will depend on government's repayment.



## Engineering Construction

Engineering construction is the most important business segment of CDHXI as it was the largest contributor of the total revenue in the past three years. It mainly conducts three business components: 1) project construction and management, 2) residential construction and supporting services and 3) infrastructure construction and operation, of which the project construction and management accounts for c. 50% of the total revenue, while the latter two accounts for the remaining 50%. The revenue from this business segment was RMB2.6 billion, RMB3.3 million, RMB3.4 million and RMB2.1 billion in 2019, 2020, 2021 and for the first six months of 2022, which accounted for more than 90% of its total revenue in the corresponding period. The gross margin for this segment was stable at c. 16%-17% in 2019-2021, while that for the first six months of 2022 declined to 11.1% due to the lower margin of project construction. In light of its projects under construction and to be developed, the capital expenditure of this segment is still under pressure.

## Project construction and management



CDHXI undertakes the construction of major projects and some follow-up operation and management tasks upon completion in Jintang. The projects involved are mainly operation and industrial projects such as factory buildings, comprehensive industrial parks, agricultural experience parks, etc. Most of these projects have strong marketability and revenue generation ability upon completion and putting into operation.

CDHXI mainly adopts a market-oriented construction cooperation model and participates in project construction and construction management. Following the completion of projects, CDHXI provides some operation and management services in the early stage of operation for customers with operational management needs. Also, CDHXI provides comprehensive consulting services to the enterprises settled in the industrial parks or complex.

CDHXI accumulated engineering construction and management experience by undertaking large-scale construction projects. The company plans to contribute to the vigorous development of industries in the region through expanding the scope of its main business in various forms, such as independent operation and equity investment.

### **Residential construction and supporting services**

CDHXI actively undertakes the construction of affordable housing and resettlement housing, as well as the supporting property management business in Jintang given on its experience of engineering construction. The project owner remunerates CDHXI for its construction services on schedule by the presales proceed of the project. Following the completion and delivery of projects, CDHXI also participates in the property management for some of these projects, which the company collect remunerations from property owners and tenants.

CDHXI gradually established the model of "self-built + market-oriented sales" for the construction and development of affordable housing and other properties. Under this business model, CDHXI develops the project through independent preparation, planning and construction, and sell the properties directly to individuals with housing needs. The upgrading of this business model will enhance the profitability of this segment.

### **Infrastructure construction and operation**

CDHXI undertakes some infrastructure construction and operation functions in Jintang. It mainly participates in construction projects such as integrated pipeline corridors, electric power projects, municipal facilities, etc. According to the construction agreements, signing parties generally agree with on the rights and obligations of the construction quality, construction period, investment amount, payment of construction costs, etc. For some operating infrastructure projects, CDHXI may participate in the subsequent management and operation after these projects are completed.

CDHXI plans to shift some of its infrastructure business resources to industrial engineering projects and self-operated residential development projects. The transformation to market-oriented approach may strengthen the profitability of construction projects and the overall profitability of the company.

### **Building Material Sales**

Building material sales, as an important supplementary part of CDHXI's main business, generated the income of RMB13.1 million, RMB15.8 million and RMB13.2 million in 2019, 2020 and 2021, respectively, with an increasing gross margin of -0.8%, 11.6% and 17.5%,

respectively, in corresponding years as a result of economy of scale. CDHXI did not recognize any revenue in this segment for the first six months of 2022 as the subsidiary operating building material sales was transferred out of CDHXI. A new subsidiary is gradually taking over this segment, which delayed the revenue recognition process. CDHXI processes and sells the sand and gravel generated from excavation during the land preparation process in Xincheng, during which CDHXI formed a relatively stable supply and demand relationship and business network with various local downstream customers.

### Other Businesses

CDHXI's other businesses mainly include transportation operation, storefront transfer, land transfer and photovoltaic power generation. CDHXI manages the deployment of cab operations in Jintang by collecting fixed leasing payment based on the overall cab market operating revenue quotation and with the reference to the rates charged by peer cab companies. Besides, the photovoltaic power generation project with a total value of RMB1.4 billion is under construction, which will provide electricity to residents in Jintang with a lower price upon completion.

## Financial Profile

### Balance Sheet Structure and Quality

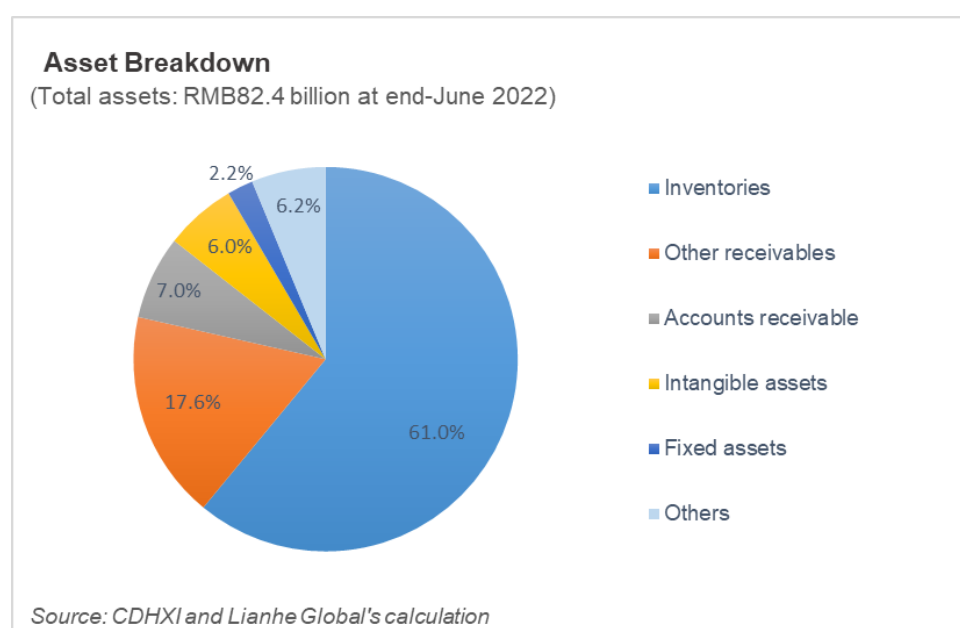
<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>June 2022</b>
Total Asset	66,126	72,049	82,406	82,445
Equity	38,892	39,927	45,801	45,952
Debt	17,664	21,202	23,271	24,750
Debt/(Debt+Equity) (%)	31.2	34.7	33.7	35.0
LT Debt	12,745	16,843	16,324	19,235
LT Debt/(LT Debt+Equity) (%)	24.7	29.7	26.3	29.5

*Source: CDHXI and Lianhe Global's calculations*

CDHXI's total assets showed a continuous growth trend in past few years, with growth rate of 9.0%, 14.4% and 0.1% at end-2020, end-2021 and end-June 2022, respectively. The increase in 2021 was mainly caused by other receivables and inventory that related to the project construction. The asset structure was stable, with inventory, other receivables, account receivables and Intangible asset accounted for more than 90% of its total assets at end-June 2022, representing a relatively highly concentrated asset distribution. The inventories, as the largest composition (61.0% of total) of the total assets, reached RMB50.3 billion at end-June 2022, of which the majority was land to be developed in Jintang, especially in Xincheng. Per management, these lands are prepared for self-development and used for leasing when completing the development process. Other receivables and account receivables reached RMB14.5 billion and RMB5.8 billion, respectively, at end-June 2022, where the largest party in arrears were all the Jintang Finance Bureau. The intangible asset was RMB5.0 billion at end-June 2022, most of which was land use right.



CDHXI relied on borrowings to fund its capital expenditure, and its long-term borrowings and debentures payables accounted for c. 34% of its total liabilities at end-June 2022. The total adjusted debt of CDHXI increased from RMB21.2 billion at end-2020 to RMB24.8 billion at end-June 2022, mainly due to the increase of long-term payables, of which the majority were non-traditional financing. The short-term and long-term adjusted debt accounted for 22.3% and 77.7% of its total adjusted debt respectively, at end-June 2022. Per management, the proportion of short-term borrowings and non-traditional financing will be less than 30% in the future. CDHXI's financial leverage (total liabilities to assets) remained stable at a moderate level of c. 44% between 2020 and end-June 2022. In view of its projects under construction and to be developed, we expect CDHXI's capital expenditure to be still under pressure in the future.



## Cash Flow

Cash Flow (RMB million)	2019	2020	2021	6M2022
Cash Inflows from Operation	19,814	20,555	33,305	16,174
Cash Outflows from Operation	21,022	20,418	33,259	16,078
<b>Net CF from Operation</b>	<b>-1,208</b>	<b>136</b>	<b>45</b>	<b>96</b>
Cash Inflows from Investment	496	19	191	0
Cash Outflows from Investment	718	1,018	1,060	309
<b>Net CF from Investment</b>	<b>-222</b>	<b>-999</b>	<b>-869</b>	<b>-309</b>
Cash Inflows from Financing	7,461	11,556	14,666	6,422
Capital Contribution	273	80	540	0
Borrowings	5,106	7,552	8,440	3,786
Cash Outflows from Financing	2,082	3,924	5,687	2,637
<b>Net CF from Financing</b>	<b>6,142</b>	<b>10,046</b>	<b>13,540</b>	<b>6,751</b>
Net Increase in Cash and cash equivalent	1,319	1,510	1,126	-329

Source: CDHXI's financial reports

## Debt Servicing Capability

The liquidity of CDHXI was tight. CDHXI had a cash balance of approximately RMB0.9 billion and unused credit facilities of RMB3.3 billion at end-June 2022, compared with debt within



one year of c. RMB5 billion at the same time, indicating a tight liquidity. However, CDHXI has made efforts to expand its bank credit. CDHXI has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. The company also has considerable credit facilities from non-traditional financing institutions (basically some trust loans and financial leasing). CDHXI has financing channels including bank loans and non-traditional financing etc. to support its debt repayment and business operation.

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