

Lianhe Ratings Global Limited has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Luoyang Guoyuan Investment Holding Group Co., Ltd.

HONG KONG, 22 March 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Luoyang Guoyuan Investment Holding Group Co., Ltd. (“LGIH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jianxi District, Luoyang City (“Jianxi government”) would provide strong support to LGIH if needed, in light of its indirect full ownership of LGIH, LGIH’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Jianxi District, Luoyang City (“Jianxi”), and the linkage between the Jianxi government and LGIH, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Jianxi government may face significant negative impact on its reputation and financing activities if LGIH encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Luoyang High-tech Industrial Development Zone Management Committee (“LHZMC”), as the de facto controller of LGIH, indirectly holds 60% of the company’s shares through the Luoyang Comprehensive Center for Free Trade Services (“Luoyang FTC”), while the remaining 40% is owned by the Finance Bureau of Jianxi District, Luoyang City (“Jianxi FB”). The Financial Committee of Jianxi District has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, it also has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Jianxi and Strategic Alignment: The Jianxi government integrated state-owned enterprises in the region in 2022, after which LGIH became the sole LIDC in the region. LGIH is mainly responsible for infrastructure construction and state-owned assets operation in Jianxi with strong franchise advantages. The company undertakes most of the important municipal infrastructure projects in the region, and is responsible for the construction of affordable housing, urban renewal, industrial operation, cultural tourism and other industrial

fields in the region under the planning of the Jianxi government. LGIH plays an important role in promoting the economic and social development of Jianxi. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: LGIH received operational and financial support from the Jianxi government. LGIH received a total subsidy amount of c. RMB2.4 billion from 2019 to the first nine months of 2022, mainly including operating subsidies and tax breaks, etc. The Jianxi government will repurchase some infrastructure and affordable housing construction projects through the LHZMC and provide policy supports to LGIH to ensure its business operation. Besides, the Jianxi government increased the company's registered capital through cash injection and continued to inject equity and land assets into LGIH. Given the franchise advantage in infrastructure construction and affordable housing construction in Jianxi, LGIH has advantages to obtain land resources and major projects. We believe LGIH is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

LGIH's Financial Matrix and Liquidity Position: LGIH's total assets showed a continuous growth trend in the past years and reached RMB36.4 billion at end-September 2022, mainly due to the growth of inventories resulting from the construction of projects relating to its main business. The current asset accounted for a large proportion in total asset. LGIH's financial leverage (total liabilities to total assets) was relatively stable at c. 53%-62% in the past three years. Its adjusted debt increased to c. RMB14.3 billion at end-September 2022 from c. RMB8.7 billion at end-2019, where the short-term debt accounted for 28.3%. The liquidity of LGIH was tight, with unrestricted cash and unused credit facilities of c. RMB0.3 billion and RMB0.2 billion at end-September 2022, respectively, compared with its debt due within one year of c. RMB3.8 billion. Having said that, LGIH has access to various financing channels, including bank loans, bond issuance and non-traditional financing (e.g., trust loans), to support its debt repayment and business operations.

Economy and Fiscal Strength of Jianxi: Jianxi is an administrative district of Luoyang City, Henan Province ("Luoyang"), located in the northwestern part of the central city of Luoyang, which is an urban industrial area with mechanical industry as the mainstay. Luoyang High-tech Industrial Development Zone was merged into Jianxi in 2021. Jianxi recorded stable economic growth in the past three years, achieving a GDP of c. RMB69.8 billion in 2021, with a year-on-year growth of 5.7%. Jianxi's economic growth was almost entirely fueled by the secondary and tertiary industries, which accounted for 44.8% and 55% in 2021, respectively.

The Jianxi government's aggregate fiscal revenues are mainly derived from budgetary revenue and transfer payment, of which the budgetary revenue grew steadily and reached RMB4.4 billion in 2021. The tax revenue accounted for 48%-61% of its budgetary revenue between 2019 and 2021. Non-tax revenue was mainly derived from the usage of state-owned assets. The fiscal self-sufficiency rate of the Jianxi government was sufficient. Having said that, the volume of government fund income was relatively small. The debt ratio (i.e., total government debt divided by aggregate revenue) of the Jianxi government was relatively low. At end-2021, the total outstanding amount of government debt increased to RMB0.9 billion from RMB0.5 billion at end-2019, mainly due to the increase in general debt.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 LGIH's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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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