

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Suqian Yufeng Industrial Investment Development Management Group Co., Ltd.**

HONG KONG, 16 March 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Suqian Yufeng Industrial Investment Development Management Group Co., Ltd. (“SYII” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Suyu District of Suqian City (“Suyu government”) would provide strong support to SYII if needed, in light of its indirectly full ownership of SYII, SYII’s strategic importance as an important local investment and development company (“LIDC”) for infrastructure construction and resettlement housing construction in Suyu District (“Suyu”), and the linkage between the Suyu government and SYII, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support, etc. In addition, the Suyu government may face significant negative impact on its reputation and financing activities if SYII encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** SYII was established in February 2009. In February 2023, the controller shareholder of the company changed to Jiangsu Yundong Holding Group Co., Ltd. (“Yundong Group”), a state-owned entity wholly owned by the State-owned Assets Supervision and Administration Office of the Suyu government (“Suyu SASAO”), and the ultimate and actual controller of the company was the Suyu government. The Suyu government has strong supervision over SYII, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions. In addition, the Suyu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** SYII is an important LIDC for infrastructure construction, resettlement housing construction and state-owned assets management and operation in Suyu, with a certain regional monopoly advantage. SYII mainly undertakes Suyu’s municipal projects construction, including affordable housing construction, water conservancy projects and road renovation projects. The company is in a dominant position in the urban infrastructure industry of Suyu, playing an important role in the urban construction and

economic development for the region. The development strategy of the company is aligned with the development plan of the local government.

**Ongoing Government Support:** As an important state-owned entity for infrastructure construction, the company continuously received government support. In 2020, the registered capital of the company increased from the initial of RMB100 million to RMB500 million, mainly increased by capital and physical assets injection from shareholder. In terms of government subsidies, the amount of government subsidies received by the company from 2019 to 2021 and in the first nine months of 2022 was c. RMB5.7 million, RMB52.0 million, RMB5.16 million and RMB2.1 million, respectively. Given the company's role and importance, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

**SYII's Financial and Liquidity Position:** SYII's total assets grew steadily and the asset structure was relatively stable in the past few years. At end-September 2022, SYII's assets were mainly composed of land, construction projects and receivables. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, and that the company's overall asset liquidity was moderately weak. The financial leverage ratio (total liabilities/total assets) of SYII was 65.7% at end-September 2022. The company mainly relies on external financing to support its capital expenditure and debt repayment. At end-September 2022, the company's adjusted debt was c. RMB11.1 billion, of which short-term and long-term debt accounted for 39.3% and 60.7% of its total debt respectively.

**Economy and Fiscal Condition of Suyu:** Suyu is a district under the jurisdiction of Suqian City of Jiangsu Province ("Jiangsu"), and it is located in the north of Jiangsu. In 2022, the economic development of Suyu maintained growth, and its GDP was c. RMB43.02 billion, up 3.3% year-on-year. In 2022, affected by the value-added tax (VAT) credit refund policy, the budgetary revenue of Suyu was c. RMB3.5 billion with a growth rate of 0.43%, and the percentage of tax revenue decreased to 82.01% from 95.69% in 2020. The fiscal self-sufficiency rate of Suyu was insufficient and the fiscal deficit was relatively high. Nevertheless, Suyu continuously received subsidies income from higher government. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2022, the government fund income of the Suyu was c. RMB2.95 billion. At end-2022, the local government's outstanding debt was c. RMB8.56 billion, including RMB3.39 billion of general obligations and RMB5.17 billion of special debt.

## Rating Sensitivities

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

We would consider upgrading SYII's rating if (1) there is strengthened support from the Suyu government, or (2) there is an upgrade in our internal credit assessment on the Suyu 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 SYII'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](http://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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