

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Qingdao Laoshan Science and Technology Innovation Development Group Co., Ltd.

HONG KONG, 25 April 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Qingdao Laoshan Science and Technology Innovation Development Group Co., Ltd. (“QLSTI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Laoshan District, Qingdao City (“Laoshan government”) would provide strong support to QLSTI if needed, in light of its direct full ownership of QLSTI, QLSTI’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for industrial park leasing and development, industrial investment and urban development in Laoshan District, Qingdao City (“Laoshan”), and the linkage between the Laoshan government and QLSTI, 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 Laoshan government may face significant negative impact on its reputation and financing activities if QLSTI encounters any operational and financial difficulties.

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

Key Rating Rationales

Laoshan Government’s Ownership and Supervision: The Laoshan government directly holds the full ownership of QLSTI through the Finance Bureau of Laoshan District, Qingdao City (“Laoshan FB”), and is the actual controller of the company. The Laoshan government 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, the Laoshan government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Laoshan and Strategic Alignment: QLSTI, as an important innovation and industrial investment LIDC in Laoshan, is primarily responsible for the industrial park leasing and development, urban development and industrial investment within the region with strong franchised advantages. The company undertakes functions such as technology venture capital investment, technology finance, industrial park projects development and operation, industrial guidance and investment attraction, according to the industrial development plan of the Laoshan government. The company also undertakes part of the urban renewal and area development projects on behalf of the Laoshan government. QLSTI plays

an important role in promoting the economic development and industrial upgrading of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: QLSTI received operational and financial support from the government. QLSTI had received a total subsidy amount of c. RMB188.7 million from 2019 to the first nine months of 2022, mainly including operating subsidies and rent subsidies. The Laoshan government continued to inject cash and other assets into QLSTI to expand its asset size. Besides, the Laoshan government provides policy supports to QLSTI to ensure its business operation. We believe QLSTI is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

QLSTI's Financial Matrix and Liquidity Position: QLSTI's total assets showed a continuous growth trend in the past years and reached RMB23.8 billion at end-September 2022 mainly due to the increase of investment properties, which was driven by the transfer of some completed industrial park development projects. The non-current assets of QLSTI accounted for c. 81.4% of the total assets as of end-September 2022, and the overall assets were less liquid. QLSTI's financial leverage (total liabilities to total assets) was 49.7% and its adjusted debt increased to c. RMB6.6 billion at end-September 2022. The liquidity of QLSTI was moderate. QLSTI had an unrestricted cash balance and unused credit facilities of c. RMB1.1 billion and RMB2.3 billion at end-September 2022, respectively, compared with its debt due within one year of c. RMB2.8 billion. Besides, QLSTI has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Laoshan: Laoshan is located in the eastern of the Qingdao City ("Qingdao"). It is one of the seven urban districts of Qingdao. Laoshan recorded an economic growth in 2022, achieving a GDP of c. RMB108.1 billion, with a year-on-year growth of 5.7%. The growth rate has slowed down compared to previous years due to the impact from COVID-19.

The aggregate fiscal revenue of the Laoshan government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Laoshan government reached c. RMB20.4 billion, with a year-on-year increase of 8.3%. Having said that, the tax revenue decreased slightly due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income, which was mainly generated from land sales, dropped to c. RMB7.7 billion in 2022 from c. RMB13.8 billion in 2021, owing to the weak property market. The budget deficit of the Laoshan government was stable at c. 30% in the past three years, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Laoshan government was low. The special purpose debt constituted a high proportion of the total debt.

Rating Sensitivities

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

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

Contact Information

Primary Analyst

Toni Ho

Director

(852) 3462 9578

toni.ho@lhratingsglobal.com

Committee Chairperson

Ben Yau

Senior Director

(852) 3462 9586

ben.yau@lhratingsglobal.com

Business Development Contact

Joyce Chi

Managing Director

(852) 3462 9569

joyce.chi@lhratingsglobal.com

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