

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Qingdao Military-Civilian Integration Development Group Co., Ltd.

HONG KONG, 4 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Qingdao Military-Civilian Integration Development Group Co., Ltd. (“QMIDG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of West Coast New Area, Qingdao City (“West Coast New Area government”) would provide strong support to QMIDG if needed, in light of its indirect full ownership of QMIDG, QMIDG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and innovative industries integration in West Coast New Area, Qingdao City (“West Coast New Area”), and the linkage between the West Coast New Area government and QMIDG, 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 West Coast New Area government may face significant negative impact on its reputation and financing activities if QMIDG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that QMIDG’s strategic importance would remain intact while the West Coast New Area government will continue to ensure QMIDG’s stable operation.

Key Rating Rationales

West Coast New Area government’s Ownership and Supervision: The West Coast New Area government indirectly holds 100% ownership of QMIDG through the Qingdao West Coast New Area State-owned Assets Administration (“West Coast New Area SAA”), via Qingdao Economic and Technological Development Zone Investment Holding Group Co., Ltd. (“QETDZ”), and is the actual controller of the company. The West Coast New Area 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 West Coast New Area 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 West Coast New Area and Strategic Alignment: QMIDG, as the main implementation body for infrastructure construction and innovative industries integration in West Coast New Area, is primarily responsible for the infrastructure construction projects in Qingdao West Coast New Area, especially the core area of Guzhenkou (“Guzhenkou”) and

Qingdao Economic and Technological Development Zone ("Qingdao ETDZ") among its ten functional areas, as well as the construction of industrial parks related to innovation integration and equity investment in related projects to promote the implementation of innovation integration strategy of the region, with strong franchised advantages. QMIDG plays an important role in promoting the economic development and innovation integration of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: QMIDG received operational and financial support from the government. QMIDG had received a total subsidy amount of c. RMB108.3 million from 2019 to the first nine months of 2022, mainly including operating subsidies. Meanwhile, the West Coast New Area government continued to inject cash, project-specific funds, financial fund and other assets into QMIDG to expand its asset size. Besides, the West Coast New Area government provides policy supports to QMIDG to ensure its business operation. We believe QMIDG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

QMIDG's Financial Matrix and Liquidity Position: QMIDG's total assets showed a continuous growth trend in the past years and reached RMB78.4 billion at end-September 2022 mainly due to the increase of inventories, which has increased in tandem with the company's construction projects. The current assets of QMIDG accounted for c. 67.1% of the total assets as of end-September 2022, but the overall assets were less liquid due to high development cost. QMIDG's financial leverage (total liabilities to assets) remained stable at c. 69% from end-2019 to end-September 2022, and 69.1% at end-September 2022. QMIDG's adjusted total debt increased to c. RMB43.77 billion at end-September 2022. The liquidity of QMIDG was moderate. At end-September 2022, QMIDG had unrestricted cash balance and unused credit facilities of c. RMB4.85 billion and RMB14.04 billion, respectively, compared with its debt due within one year of c. RMB15.96 billion at the same time. Besides, QMIDG 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 West Coast New Area: The West Coast New Area is located in the southwest of the Qingdao City ("Qingdao"). It is one of the seven urban districts of Qingdao. West Coast New Area recorded an economic growth in 2022, achieving a GDP of c. RMB469.2 billion, with a year-on-year growth of 4.8%. Its total GDP ranks first among all districts and counties in Qingdao. The aggregate fiscal revenue of the West Coast New Area government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the West Coast New Area government reached c. RMB22.4 billion, but the tax revenue decreased due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income was more volatile, dropping to c. RMB19.5 billion in 2022 from c. RMB25.6 billion in 2021. The fiscal self-sufficiency rate of the West Coast New Area government was sufficient, but it recorded budget deficit of 8.0% in 2022, the first budget deficit in the past few years. Given the West Coast New Area government borrowed heavily in special debts to support its public projects, its fiscal

debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 107.8% at end-2022.

Rating Sensitivities

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

We would consider upgrading QMIDG's rating if (1) there is strengthened support from the West Coast New Area government, or (2) there is an upgrade in our internal credit assessment on the West Coast New Area 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 QMIDG'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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