

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Xiao County Construction Investment Group Co., Ltd.

HONG KONG, 18 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Xiao County Construction Investment Group Co., Ltd. (“XCCIG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Xiao County, Suzhou City (“Xiao County government”) would provide very strong support to XCCIG if needed, in light of its direct full ownership of XCCIG, XCCIG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for comprehensive urban operation, project construction, area development and state-owned asset management in Xiao County, Suzhou City (“Xiao County”), and the linkage between the Xiao County government and XCCIG, 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 Xiao County government may face significant negative impact on its reputation and financing activities if XCCIG encounters any operational and financial difficulties.

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

Key Rating Rationales

Xiao County Government’s Ownership and Supervision: The Xiao County government directly holds 100% ownership of XCCIG through the Finance Bureau of Xiao County, Suzhou City, and is the actual controller of the company. The Xiao County 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 Xiao County 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 Xiao County and Strategic Alignment: XCCIG, as the main implementation body for comprehensive urban operation, state-owned asset management and project construction in Xiao County, is primarily responsible for the construction of key urban projects, sewage treatment, water supply, urban maintenance and management in Xiao County, as well as the area development within the area, with strong franchised advantages. XCCIG serves as the primary platform for urban construction financing and manages urban construction funds. It plays an important role in promoting the economic and social

development and of Xiao County. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: XCCIG received operational and financial support from the government. XCCIG received a total subsidy amount of c. RMB76.8 million from 2020 to 2022, mainly including operating subsidies. Meanwhile, the Xiao County government continued to inject cash, equity, investment properties and other assets into XCCIG to expand its asset size. Besides, the government will provide policy supports to XCCIG to ensure its business operation. Given the franchise advantages in project construction, area development and urban operation, XCCIG has advantage to obtain major projects. We believe XCCIG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

XCCIG's Financial Matrix and Liquidity Position: XCCIG's total assets showed a continuous growth trend in the past years and reached RMB10.6 billion at end-2022 mainly due to the receiving of equities and investment properties from the Xiao County government. The current assets of XCCIG accounted for c. 56.7% of the total assets at end-2022, but the overall assets were less liquid, due to high development cost and large-scale investment properties and receivables. XCCIG's financial leverage (total liabilities to assets) remained stable at c. 58% from end-2020 to end-2021, but decreased to 31.9% at end-2022. XCCIG's adjusted total debt increased to c. RMB3.2 billion at end-2022. The liquidity of XCCIG was sufficient. At end-2022, XCCIG had unrestricted cash balance and unused credit facilities of c. RMB42.3 million and RMB1.8 billion, respectively, compared with its debt due within one year of c. RMB1.0 billion at the same time. Besides, XCCIG has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Xiao County: Xiao County is located in the northwest of Suzhou City, Anhui Province. It recorded an economic growth in 2022, achieving a GDP of c. RMB43.2 billion, with a year-on-year growth of 5.1%. Its total GDP ranks second among all districts and counties in Suzhou. The aggregate fiscal revenue of the Xiao County government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Xiao County government decreased to c. RMB2.1 billion, due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income maintained steady growth, reaching c. RMB2.9 billion in 2022. The financial self-sufficiency rate of Xiao County was insufficient and it recorded a budget deficit of -289.9% in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 118.8% at end-2022 from 78.6% at end-2020.

Rating Sensitivities

We would consider downgrading XCCIG's rating if (1) there is perceived weakening in support from the Xiao County government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Xiao County

government's ownership of XCCIG, or (3) there is a downgrade in our internal credit assessment on the Xiao County government.

We would consider upgrading XCCIG's rating if (1) there is an upgrade in our internal credit assessment on the Xiao County 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 XCCIG'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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