

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chongqing Tongnan District Construction Engineering (Group) Co., Ltd.

HONG KONG, 21 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chongqing Tongnan District Construction Engineering (Group) Co., Ltd. (“CTDCE” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Tongnan Government’s Ownership and Supervision: The Tongnan government holds the full ownership of CTDCE via the State-owned Assets Supervision and Administration Commission of Tongnan (“Tongnan SASAC”), and is the actual controller of the company. The Tongnan 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 Tongnan government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Tongnan and Strategic Alignment: CTDCE is primarily responsible for infrastructure construction within the region. CTDCE plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: CTDCE received operational and financial support from the government. CTDCE received a total subsidy amount of c. RMB108.8 million from 2020 to 2022, mainly including operating subsidies. The Tongnan government also injected project

fund to the company, which served as state-owned capital investment for the company's infrastructure projects. We believe CTDCE is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

CTDCE's Financial Matrix and Liquidity Position: CTDCE's total assets showed a continuous growth in the past few years, with a growth rate of 13.9% and 30.4% at end-2021 and end-2022, respectively, and reached RMB10.0 billion at end-2022. The increase of CTDCE's total assets in 2022 was largely due to its other receivables and intangible assets. CTDCE had large proportion of non-current assets in total assets (77.3% at end-2022) and its overall asset liquidity was weak. CTDCE's financial leverage (total liabilities to assets) was 56.7% at end-2022. CTDCE's total adjusted debt increased to c. RMB2.6 billion at end-2022. The liquidity of CTDCE was tight. At end-2022, CTDCE had unrestricted cash balance and unused credit facilities of c. RMB0.05 billion and RMB0.19 billion, respectively, compared with its debt due within one year of c. RMB0.56 billion at the same time. Therefore, the company must successfully roll over its short-term bank borrowings (end-2022: c. RMB0.34 billion) and obtain additional financing sources or government support to maintain its liquidity.

Economy and Fiscal Condition of Tongnan: Tongnan is an administrative district of Chongqing, and is in the northwest of Chongqing with a total area of 1,583 square kilometers. Tongnan is an important industrial base, tourism destination and vegetable production area in the Chengdu-Chongqing economic circle. Tongnan maintained economic growth but slow down substantially in 2022. Tongnan's GDP reached c. RMB55.9 billion, representing a year-over-year growth rate of 3.0% in 2022, and its GDP ranked the 22nd among all districts and counties of Chongqing. The budgetary revenue of the Tongnan government achieved accelerated growth in the past three years, reaching c. RMB3.0 billion with a year-on-year increase of 28.8% in 2022, which was mainly contributed by the substantial growth of non-tax revenue. Meanwhile, the share of tax revenue in budgetary revenue kept decreasing, recording at 28.4% in 2022. The fiscal self-sufficiency rate of the Tongnan government was insufficient, and it recorded budget deficit of -149.8% in 2022, despite the narrowing trend in the past few years. On the other hand, the government fund income and transfer payment were relatively stable in the past few years, recording at RMB2.7 billion and RMB3.5 billion, respectively, in 2022. The debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 119.2% at end-2022 from 85.1% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

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