

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Dongtai Xixi Tourism and Cultural Scenic Area Investment Development 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 Dongtai Xixi Tourism and Cultural Scenic Area Investment Development Co., Ltd. (“DXTCS” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dongtai City, Jiangsu Province (“Dongtai government”) would provide strong support to DXTCS if needed, in light of its indirect full ownership of DXTCS, DXTCS’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and resettlement housing construction in Dongtai City, Jiangsu Province (“Dongtai”), especially in Xixi Tourism and Cultural Scenic Area (“Xixi Area”), and the linkage between the Dongtai government and DXTCS, 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 Dongtai government may face significant negative impact on its reputation and financing activities if DXTCS encounters any operational and financial difficulties.

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

Key Rating Rationales

Dongtai Government’s Ownership and Supervision: The Dongtai government indirectly holds 100% ownership of DXTCS through Dongtai Tongda Investment Co. Ltd. and Dongtai Transportation Investment and Construction Group Co. Ltd., and is the actual controller of the company. The Dongtai 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 Dongtai 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 Dongtai and Strategic Alignment: DXTCS, as the main implementation body for infrastructure investment, construction and operation in Dongtai, especially in Xixi Area, is primarily responsible for the construction of key tourism projects, municipal projects such as bridges and roads, as well as resettlement housing projects within the region. With the support of the local government, the company actively participates in tourism resource development. As the construction of Xixi Area progresses, DXTCS’s business scale is expected to further expand. The company plays an important role in

promoting the economic and social development of Xixi Area. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: DXTCS received operational and financial support from the government. DXTCS received a total subsidy amount of c. RMB245.3 million from 2020 to 2022, mainly including operating subsidies. The Dongtai government also injected cash, land, properties and other assets into DXTCS to expand its asset size. Besides, the government will repurchase some infrastructure and resettlement housing projects and provide policy supports to DXTCS to ensure its business operation. Given the regional advantages in infrastructure construction within Xixi Area, DXTCS has advantage to obtain major projects and other resources. We believe DXTCS is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

DXTCS's Financial Matrix and Liquidity Position: DXTCS's total assets showed a continuous growth trend in the past years and reached RMB11.3 billion at end-2022, mainly due to the increase in investment properties and other receivables. The current assets of DXTCS accounted for c. 76.0% of the total assets at end-2022, but the overall assets were less liquid, due to the large proportion of costs associated with construction projects, investment properties and receivables. DXTCS's financial leverage (total liabilities to assets) increased from c. 46.9% to c. 58.1% from end-2020 to end-2022. Its adjusted total debt increased to c. RMB5.2 billion at end-2022, mainly due to the increase in long-term payable. The liquidity of DXTCS was tight. At end-2022, DXTCS had unrestricted cash balance and unused credit facilities of c. RMB249.7 million and RMB768 million, respectively, compared with its debt due within one year of c. RMB1.8 billion at the same time. Having said that, DXTCS 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 Dongtai: Dongtai is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Yancheng City. It recorded an economic growth in 2022, achieving a GDP of c. RMB105.1 billion, with a year-on-year growth of 4.7%. Its total GDP ranks first among all districts and counties in Yancheng. The aggregate fiscal revenue of the Dongtai government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Dongtai government increased to c. RMB6.1 billion. However, the tax revenue decreased to RMB4.4 billion due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income decreased to RMB5.6 billion in 2022, owing to the weak property market. Dongtai's budget deficit increased to 130.7% in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 108.1% at end-2022 from 98.7% at end-2021.

Rating Sensitivities

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

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

We would consider upgrading DXTCS's rating if (1) there is an upgrade in our internal credit assessment on the Dongtai government. (2) there is an upgrade in our internal credit assessment on the Dongtai 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 DXTCS'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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