

**Lianhe Global has assigned ‘A’ global scale Long-term Issuer Credit Rating with Positive Outlook to Qingdao China Prosperity State-owned Capital Investment Operation Group Co., Ltd.**

HONG KONG, 5 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A’ global scale Long-term Issuer Credit Rating to Qingdao China Prosperity State-owned Capital Investment Operation Group Co., Ltd. (“QCP” or “the company”). The Outlook is Positive.

The Issuer Credit Rating reflects a high possibility that the Qingdao Municipal Government would provide strong support to QCP if needed, in light of its full ownership of QCP, QCP’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for state-owned asset management and industry investment and operation in Qingdao City (“Qingdao”), and the linkage between the Qingdao Municipal Government and QCP, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support. In addition, the Qingdao Municipal Government may face significant negative impact on its reputation and financing activities if QCP encounters any operational and financial difficulties.

The Positive Outlook reflects QCP’s increasing strategic importance in Qingdao and linkage with the Qingdao Municipal Government, and our expectation that the Qingdao Municipal Government will continue to ensure QCP’s stable operation.

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Qingdao Municipal Government holds 100% shares of QCP through the State-owned Assets Supervision and Administration Commission of Qingdao (“Qingdao SASAC”). The Qingdao Municipal Government also has strong control over the company, including appointment and supervision of the senior management, strategic alignment, major investment and financing planning decisions. In addition, the Qingdao Municipal Government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** As a key state-owned assets operation and management entity in Qingdao, QCP is positioned as the major entity for strategic adjustment of state-owned capital layout structure and the transformation platform for supervision of state-owned capital operation. QCP is the pioneer to promote the reform of state-owned enterprises on behalf of the Qingdao Municipal Government. The Qingdao SASAC has endowed QCP with a large number of functional government functions, guided the company to actively carry out the integration and operation of state-owned capital, led the deepening reform of the state-owned assets system, and promoted the transformation and development of Qingdao’s state-

owned assets system. QCP 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:** QCP continues to receive capital and asset injections from the Qingdao Municipal Government . The injections include but not limited to cash, equity capital, right-of-use assets or other fixed assets. Especially, the Qingdao Municipal Government has transferred a large number of equities of state-owned entities to QCP as equity injections, including the transfer of Qingdao Municipal Government 's ownership of Hisense Company Limited in 2020. Also, QCP receives a wide variety of governmental subsidies from the Qingdao Municipal Government . QCP received government subsidies of c. RMB629 million in 2020-2022. We believe QCP is likely going to receive government support in the future.

**Economy and Fiscal Condition of Qingdao:** The total GDP of Qingdao remained the highest among all cities in Shandong Province in 2022. It realized GDP of c. RMB1,492.1 billion in 2022, representing a year-on-year growth rate of 3.9%. Qingdao's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. In 2022, affected by the extraordinary value-added tax (VAT) credit refund policy, the budgetary revenue of Qingdao was c. RMB127.3 billion and the percentage of tax revenue decreased. Qingdao's had a total outstanding debt amount of approximately RMB308 billion at end-2022, including RMB102 billion of general obligations and RMB206 billion of special debt.

**QCP's Financial and Liquidity Position:** QCP's total assets showed a continuous growth trend in the past few years, with growth rate of 6.1% and 11.5% at end-2021 and end-2022, respectively. The asset increase was mainly due to the increase in financial assets and debt and equity investments. The asset structure was stable, with long-term equity investments, financial assets held for trading, other receivables, fixed assets and investment properties accounting for c. 54% of total assets at end-2022. QCP's financial leverage (total liabilities to total assets) increased steadily from 53.7% at end-2020 to 59.1% at end-2022. The total debt of the company was c. RMB20.8 billion, of which short-term debt accounted for c. RMB10.0 billion. QCP's liquidity was moderate. At end-2022, QCP had a total cash balance of c. RMB2.3 billion, of which unrestricted cash was c. RMB1.8 billion, and a total bank credit line of c. RMB39.6 billion, of which c. RMB23.0 billion was available, compared with its debt to be due within one year of c. RMB10.0 billion. QCP has access to multiple financing channels including bank borrowings, corporate bonds and other financing channels. Bank loans, corporate bonds and other financing channels accounted for c. 46%, 48% and 6% of QCP's total debt, respectively.

### **Rating Sensitivities**

We would consider downgrading QCP's rating if (1) there is perceived weakening in support from the Qingdao Municipal Government , particularly due to its reduced strategic importance with diminished government functions, or (2) commercial-oriented operations may significantly jeopardize QCP's overall credit profile, or (3) there is a significant reduction of the Qingdao

Municipal Government 's ownership of QCP, or (4) there is a downgrade in our internal credit assessment on the Qingdao Municipal Government .

We would consider upgrading QCP's rating if (1) there is an upgrade in our internal credit assessment on the Qingdao Municipal Government , or (2) there is strengthened support from the Qingdao Municipal Government , or (3) there is a continuing demonstration of the strengthening of QCP's strategic importance in Qingdao.

### **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 QCP'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](http://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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