

**Lianhe Ratings Global Limited has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Laizhou Finance Investment Co., Ltd.**

HONG KONG, 10 July 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Laizhou Finance Investment Co., Ltd. (“LFI” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Laizhou government directly holds the full ownership of LFI through the Finance Bureau of Laizhou City (“Laizhou FB”), and is the actual controller of the company. The Laizhou 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 Laizhou 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 Laizhou and Strategic Alignment:** LFI, as the most important LIDC in Laizhou, is primarily responsible for infrastructure construction and operation of state-owned assets within the region with strong regional advantages. The company undertakes most of the important municipal infrastructure projects in the region, and is responsible for urban renewal, rural revitalization, sewage treatment, water supply and other industrial fields in the region under the planning of the Laizhou government. LFI 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:** LFI received operational and financial support from the Laizhou government. LFI received a total subsidy amount of c. RMB542.2 million from 2020 to the first three months of 2023, mainly including operating subsidies. The Laizhou

government will repurchase some infrastructure construction projects and provide policy supports to LFI to ensure its business operation. Besides, LFI received multiple asset injections in the form of cash, equities, operating income rights of ore sources, real estates and other operating income rights from the Laizhou government to expand its asset size and diversify its business. Given the regional advantage in infrastructure construction in Laizhou, LFI has advantages to obtain land resources and major projects. We believe LFI is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

***LFI's Financial Matrix and Liquidity Position:*** LFI's total assets showed a continuous growth trend in the past years and reached RMB30.2 billion at end-March 2023, mainly due to the growth of intangible assets resulting from the injection from the Laizhou government. The current asset accounted for a large proportion in total asset. LFI's financial leverage (total liabilities to total assets) increased to 39.4% at end-March 2023, while its adjusted debt increased to c. RMB8.4 billion at end-March 2023 from c. RMB943.7 million at end-2020, where the short-term debt accounted for 55.3%. The liquidity of LFI was relatively tight, with unrestricted cash and unused credit facilities of c. RMB1.1 billion and RMB2.0 billion at end-March 2023, respectively, compared with its debt due within one year of c. RMB4.7 billion. Having said that, LFI has access to various financing channels, including bank loans and non-traditional financing (e.g., finance lease), to support its debt repayment and business operations.

***Economy and Fiscal Strength of Laizhou:*** Laizhou is a county-level city under the administration of Yantai City, Shandong Province ("Yantai"), located in the west part of Yantai. Laizhou recorded stable economic growth in the past three years, achieving a GDP of c. RMB77.1 billion in 2022, with a year-on-year growth of 5.0%. Laizhou's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 45.9% and 41.9% in 2022, respectively. The Laizhou government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income, of which the budgetary revenue grew steadily and reached RMB4.2 billion in 2022. The tax revenue accounted for c. 62%-68% of its budgetary revenue between 2020 and 2022. The government fund income also increased to c. RMB3.2 billion in 2022. The budget deficit of the Laizhou government was c. 35.9% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Laizhou government decreased to 73.5% at end-2022. The special purpose debt constituted c. 60.2% of the total debt at end-2022.

### **Rating Sensitivities**

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

We would consider upgrading LFI's rating if there is an upgrade in our internal credit assessment on the Laizhou 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 LFI'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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