

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Anhui Cooperation Demonstration Zone Construction and Development Group Co., Ltd.

HONG KONG, 16 August 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Jiangsu Anhui Cooperation Demonstration Zone Construction and Development Group Co., Ltd. (“JAG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Liyang (“the Liyang government”) would provide strong support to JAG if needed. This mainly considers the Liyang government’s full ownership of JAG, JAG’s strategic importance as an important local investment and development company (“LIDC”) responsible for primary land development, resettlement house and infrastructure construction in Liyang, and the linkage between the Liyang government and JAG, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Liyang government may face significant negative impact on its reputation and financing activities if JAG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Liyang government holds 100% shares of JAG through Liyang State-Owned Assets Management Center and authorizes Liyang State-Owned Assets Investment Holding Group Co., Ltd., an LIDC wholly owned by Finance Bureau of Liyang, to manage JAG. The Liyang government has strong control over the company, including the appointment of senior management and supervision of JAG’s development strategy, major financing plan and investment decisions. In addition, the local 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: JAG is an important LIDC that is responsible for the primary land development, resettlement house and infrastructure construction in the northern part of Liyang. JAG’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government provided ongoing support to JAG. The company received multiple cash capital injections of RMB3.3 billion, 4.4 billion and 1.2 billion in 2020, 2021 and 2022, respectively. The local government also transferred assets,

mainly equity of local SOEs, valued at RMB816 million over the same period. In addition, the local government provided operational subsidies of RMB863 million in the past three years to support JAG's activities in relation to providing public goods. We expect JAG to receive ongoing support from the local government in the coming years considering its strategic importance in Liyang.

Economy and Fiscal Condition of Liyang: Liyang was listed in China's top 100 counties and managed to maintain its economic growth in the past three years, with growth rates of 4.6%, 10.1% and 6.2% in 2020, 2021 and 2022. Liyang realized a GDP of RMB141.6 billion in 2022. Under the Jiangsu-Anhui Cooperation Demonstration Zone Development Plan approved by National Development and Reform Commission in 2018, Liyang has been participating in the integration development between Jiangsu province and Anhui province. Liyang is also focusing on the development of power battery, smart grid, farming and feed machinery, automotive and components industries, attracting leading manufacturer such as CATL to build production base in the region.

The aggregate fiscal revenue of the Liyang government was primarily derived from budgetary revenue and government fund income. The Liyang government's budgetary revenue decreased to RMB8.1 billion in 2022 from RMB8.7 billion in 2021, mainly due to the large-scale value-added tax refund policy to support the economy. Meanwhile, the Liyang government's budgetary expenditure increased to RMB12.8 billion in 2022 from RMB11.0 billion in 2021. As a result, the Liyang government's budget deficit widened to -57.7% in 2022 from -18.1% in 2021. Yet Liyang's government fund income, mainly generated by land sales, maintained a stable trend in the past three years and reached RMB28.3 billion in 2022, remaining the largest contributor to aggregate fiscal revenue.

The outstanding debt of the Liyang government continued to grow over the past three years. At end-2022, the Liyang government's outstanding debt reached RMB36.0 billion, representing a year-over-year growth rate of 24.2%, mainly due to the new issuance of special debt to support Liyang's project development. As a result, the government debt ratio (total government debt/aggregate revenue) increased to 89.5% in 2022 from 66.9% in 2020.

JAG's Financial and Liquidity Position: JAG's total asset grew steadily to RMB37.9 billion at end-2022 from RMB25.6 billion at end-2020, mainly due to the multiple rounds of capital injections from the Liyang government, which enlarged its equity base to RMB22.1 billion from RMB16.3 billion during the period. The company also relied on debt financing to fund its asset expansion. As measured by total debt/capitalization, the company's financial leverage increased to 29.9% from 24.2% over the same period. Yet it stayed at a manageable level.

JAG's liquidity was tight. At end-2022, the company had cash of RMB687 million (including restricted cash of RMB203 million). At the same time, the company had debt due within one year of RMB3.3 billion. JAG has access to various financing channels, including bank borrowings and other non-traditional financings, to support its debt repayments and business operations. At end-2022, the company had unused credit lines of RMB1.4 billion, and we expect JAG to roll over most of its short-term bank borrowings (c. RMB812 million). Yet

obtaining additional financing channels and timely receiving government support is still important for JAG to maintain its liquidity.

Rating Sensitivities

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

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