

**Lianhe Ratings Global Limited has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Fangyang Group Co., Ltd.**

HONG KONG, 21 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 Fangyang Group Co., Ltd. (“JFG” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Lianyungang government directly holds the full ownership of JFG and is the actual controller of the company. As the sole shareholder of JFG, the Lianyungang 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 Lianyungang 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 Lianyungang and Strategic Alignment:** JFG, as the key LIDC in Lianyungang, is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as the most important entity in charge of infrastructure projects in the Xuwei District, JFG focuses on constructing municipal and engineering projects. In addition, the company is also responsible for the land development, port logistics, public housing leasing, industrial park support services, public utility services, sewage treatment and other state-owned asset management and operation business within the region, with strong regional advantages. JFG 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:** JFG received operational and financial support from the government. JFG received a total subsidy amount of c. RMB243.7 million from 2020 to the first three months of 2023, mainly including operating subsidies. The Lianyungang government continued to inject capitals and assets into JFG to expand its asset size. Besides, the Lianyungang government will repurchase some infrastructure projects through Xuwei New District Administration Commission and provide policy supports to JFG to ensure its business operation. Given it is the key entity for infrastructure construction and land development in Lianyungang, especially in the Xuwei District, JFG has an advantage in acquiring land resources and major infrastructure projects. We believe JFG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**JFG's Financial Matrix and Liquidity Position:** JFG's total assets showed a continuous growth trend in the past years and reached RMB108.6 billion at end-March 2023, mainly due to the increase of fixed assets. The non-current assets of JFG accounted for c. 62% of the total assets at end-March 2023, and the overall assets were less liquid. JFG's financial leverage (total liabilities to total assets) was 69% and its adjusted debt increased to c. RMB62.6 billion at end-March 2023. The liquidity of JFG was sufficient. JFG had an unrestricted cash balance and unused credit facilities of c. RMB6.6 billion and RMB33.8 million at end-March 2023, respectively, compared with its debt due within one year of c. RMB16.3 billion. Besides, JFG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Strength of Lianyungang:** Lianyungang is a prefecture-level city of Jiangsu Province, with a total land area of c. 7,615 square kilometers. Lianyungang recorded an economic growth in 2022, achieving a GDP of c. RMB400.5 billion, with a year-on-year growth of 2.4%. Lianyungang is one of the top 100 prefecture-level cities in China in 2022, indicating a relatively strong economic strength. The aggregate fiscal revenue of the Lianyungang government was mainly derived from the budgetary revenue and government fund income. The Lianyungang government's budgetary revenue decreased to c. RMB21.3 billion in 2022 from c. RMB27.5 billion in 2021 due to the economic slowdown, as well as the value-added tax credit refund policy. At the same time, the government fund income, mainly generated by land sales, reached c. RMB31.1 billion in 2022, representing a year-over-year growth of 18.5%, mainly attributed to the growth in state-owned land concessions. The budget deficit of the Lianyungang government was c. 151.9% at end-2022, while the debt ratio (total outstanding debt/aggregate fiscal revenue) of the Lianyungang government remained stable at 85%-86% in the past three years.

## Rating Sensitivities

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

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