

Correction: Lianhe Global publishes the ‘BBB’ global scale Long-term Issuer Credit Rating of Jiangsu Zhongwu Urban Rural Investment Development Group Co., Ltd.; Outlook is Stable

HONG KONG, 28 September 2023 – This replaces the press release published on 24 May 2023 to correct the name of the company to Jiangsu Zhongwu Urban Rural Investment Development Group Co., Ltd.

Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Jiangsu Zhongwu Urban Rural Investment Development Group Co., Ltd. (“JZURID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Xinyi People’s Government (“the Xinyi government”) (authorized by Jiangsu Xuzhou government) would provide very strong support to JZURID if needed, in light of its full ownership of JZURID, JZURID’s strategic importance as an important local investment and development company (“LIDC”) responsible for land consolidation, infrastructure construction and affordable housing construction as well as state-owned asset operating in Xinyi City (“Xinyi”), and the linkage between the Xinyi government and JZURID, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Xinyi government may face significant negative impact on its reputation and financing activities if JZURID encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Xinyi government (with delegation from Jiangsu Xuzhou government) holds 100% shares of JZURID directly. The local government also has strong control over the company, including the appointment of senior management and supervision of 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: JZURID, as the most important LIDC in Xinyi, is primarily responsible for land consolidation, infrastructure construction and affordable housing construction, as well as investment and construction of infrastructure and industrial facilities within the Xinyi economic development zone, with regional advantages. The company undertakes investment, financing, construction and management of major projects entrusted

by local governments. As the core platform designated by the Xinyi government and Xinyi economic development zone to implement its infrastructure construction plans, the company plays an important role in the rapid urbanization process and promoted the local economic development. Its business operation and development are in line with the development plans of the local government.

Ongoing Government Support: As the most important state-owned entity for infrastructure construction, land consolidation and state-owned asset operating in Xinyi, JZURID continuously received government support, including equity transfer, capital injection and government subsidies, etc. JZURID received a total of RMB9.24 billion in assets and capital injection. During the same period, the company received a total of RMB1.69 billion in government subsidies from the local government between 2020 and 2022. Considering the company's function and strategic importance in Xinyi, we expect the company to continue receiving government support in the future.

Economy and Fiscal Condition of Xinyi: Xinyi's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 10.1% and 4.7% in 2020, 2021 and 2022, respectively. It realized a GDP of RMB82.6 billion in 2022 and was ranked 4th among ten districts and counties under the administration of Xuzhou. In recent years, Xinyi's economic development focused on manufacturing, biological, pharmaceutical and chemical industries. Its economic growth was mainly fueled by the secondary and tertiary sectors, which accounted for 39.0% and 49.3% of GDP in 2022, respectively.

The Xinyi government's budgetary revenue increased to RMB4.6 billion in 2022 from RMB3.8 billion in 2020. However, the tax revenue's contribution decreased to 70.7% from 85.9% over the same period. Xinyi's budgetary deficit was improving but remained high, with deficit rates of -157.3%, -135.8% and -126.0% in 2020, 2021 and 2022, respectively. Xinyi's government fund income, mainly generated by land sales, increased to c. RMB6.3 billion in 2022 from RMB5.1 billion in 2021. Plus, the transfer payment from higher governments was largely stable. Therefore, the Xinyi government's aggregate revenue reached RMB16 billion in 2022, up from RMB14.1 billion in 2021.

Nevertheless, the outstanding debt of the Xinyi government continued to grow in 2022. At end-2022, the Xinyi government's outstanding debt was RMB17.0 billion (end-2021: RMB13.5 billion). Given that the Xinyi government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 106.5% at end-2022 from 95.7% at end-2021.

JZURID's Financial and Liquidity Position: JZURID's total assets increased to c. RMB112.5 billion at end-2022 from c. RMB90.8 billion at end-2020. The increase of JZURID's total assets was largely due to its the increase in inventories, which increased in tandem with the company's construction projects. At end-2022, JZURID's assets were mainly composed of inventories, receivables and investment properties. Although the company's asset structure was dominated by current assets, the company has relatively high contract performance costs and land development costs, thus, the company's overall asset liquidity was weak. The

financial leverage ratio (total liabilities/total assets) of JZURID remained stable at c. 64%-65% in the past three years. The total adjusted debt of JZURID increased to c. RMB63.9 billion at end-2022.

JZURID's liquidity was tight. At end-2022, JZURID had unrestricted cash balance and unused credit facilities of c. RMB2.7 billion and RMB9.7 billion, respectively, and available issuance quotas in onshore market of approximately RMB4.7 billion, compared with its debt due within one year of c. RMB25.0 billion at the same time. Consequently, JZURID must successfully roll over its short-term bank borrowings, which can generally be rolled over in view of the company's track record.

Rating Sensitivities

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

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