

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Yufeng Tourism Development Co., Ltd.

HONG KONG, 10 October 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Jiangsu Yufeng Tourism Development Co., Ltd. (“JYTD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dafeng District, Yancheng City (“Dafeng government”) would provide strong support to JYTD if needed, in light of its indirect full ownership of JYTD, JYTD’s strategic importance as the important local investment and development company (“LIDC”) responsible for infrastructure construction and urban redevelopment in Dafeng, Yancheng City (“Dafeng”), and the linkage between the Dafeng government and JYTD, 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 Dafeng government may face significant negative impact on its reputation and financing activities if JYTD encounters any operational and financial difficulties.

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

Key Rating Rationales

Dafeng Government’s Ownership and Supervision: The Dafeng government indirectly holds 100% ownership of JYTD through the Dafeng District Finance Bureau (“Dafeng FB”). The Dafeng government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dafeng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Dafeng and Strategic Alignment: JYTD, as the important LIDC in Dafeng, is primarily responsible for the infrastructure construction and urban redevelopment in several key areas in Dafeng, such as Dafeng resort zone, North Dafeng new district, Xinfeng town and Dafeng Port area. Besides, JYTD is also engaged in the construction and operation of tourist attractions and supporting facilities in Dafeng. JYTD plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: JYTD continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company’s strategic role in

the economic development of the Dafeng. In 2020-1H2023, JYTD received subsidies totaling around RMB43.6 million. Meanwhile, JYTD received asset and capital injections in the form of cash, construction projects, lands, and other assets. Besides, the Dafeng government provides policy supports to JYTD in tax deductions and exemption.

JYTD's Financial and Liquidity Position: JYTD's total assets showed a continuous growth in the past few years. The increase of JYTD's total assets was largely due to the receivables, inventories and intangible assets. Although JYTD had large proportion of current assets, its assets were illiquid, primarily due to the significant proportion of land to be developed and receivables. JYTD's financial leverage (total liabilities to assets) increased notably between end-2020 and end-1H2023, and JYTD's adjusted total debt also increased significantly. JYTD mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to continue.

The liquidity of JYTD was weak. At end-June 2023, JYTD had unrestricted cash balance and unused credit facilities of RMB0.7 billion and RMB3.7 billion, respectively, compared with its debt due within one year of RMB3.1 billion. However, JYTD has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of Dafeng: Dafeng is a district of Yancheng City ("Yancheng"), Jiangsu Province, and is located in the southeast of Yancheng, bordering the Yellow Sea in the east. Dafeng's GDP reached RMB81.7 billion in 2022, representing a year-over-year (y-o-y) growth rate of 4.6%, and its GDP amount was ranked 2nd in Yancheng (out of a total 9 districts). The Dafeng government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The Dafeng government's budgetary revenue reached RMB5.8 billion in 2022, with the tax revenue accounting for 72.8% of its budgetary revenue. Its fiscal self-sufficiency was improving but remained weak, and it recorded a budget deficit of 95.7% in 2022. Dafeng's government fund income, mainly generated by land sales, surged by 53.6% to RMB7.9 billion in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 62.9% at end-2022 from 71.6% at end-2020, due to the larger increase in aggregate revenue.

Rating Sensitivities

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

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