

Lianhe Global publishes ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Ningguo State-owned Capital Holding Group Co., Ltd.

HONG KONG, 25 October 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, publishes ‘BBB-’ global scale Long-term Issuer Credit Rating to Ningguo State-owned Capital Holding Group Co. Ltd. (“NSCHG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Ningguo Government’s Ownership and Supervision: The Ningguo government indirectly holds the full ownership of NSCHG via the Ningguo State-owned Assets Supervision and Administration Commission’s wholly-owned Ningguo Ningyang Holding Group Co. Ltd., and is the actual controller of the company. The Ningguo 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 Ningguo government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Ningguo and Strategic Alignment: NSCHG, as the key LIDC in the Ningguo, is primarily responsible for infrastructure construction and resettlement housing construction within the region. It serves as the major entity that undertakes the construction of infrastructure related projects in Ningguo (except Ningguo Economic and Technological Development Zone). In addition, the company is also responsible for the sales of sand and gravel, sewage treatment, urban pipe network construction and other state-owned asset management and operation business within Ningguo. NSCHG 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: NSCHG received operational and financial support from the government. NSCHG received a total subsidy amount of around RMB1.5 billion from 2020 to the first six months of 2023. The Ningguo government continued to inject intangible assets, such as sand and gravel operation right and parking fee collection right, and other assets into NSCHG to expand its asset size and diversify its business. Besides, the Ningguo government provides policy supports to NSCHG to ensure its business operation. Given that it is the key entity for infrastructure construction and resettlement housing construction in Ningguo, NSCHG has an advantage in acquiring land resources and major projects. We believe NSCHG is likely going to receive government support to support its daily business operation.

NSCHG's Financial Matrix and Liquidity Position: NSCHG's total assets showed a continuous growth trend in the past years and reached RMB47.5 billion at end-June 2023, mainly due to the increase of intangible assets. The current assets of NSCHG accounted for 62.3% of the total assets at end-June 2023, with moderate asset liquidity. NSCHG's financial leverage (total liabilities to total assets) was 65.1% and its adjusted debt increased to RMB23.3 billion at end-June 2023. The liquidity of NSCHG was moderate. At end-June 2023, NSCHG had a cash balance of RMB3.6 billion, compared with its debt due within one year of RMB6.5 billion. NSCHG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations. At end-2022, the company had unused credit lines of RMB15 billion.

Economy and Fiscal Condition of Ningguo: Ningguo is a county-level city located in the southeast of Xuancheng City, Anhui Province, with a total land area of c. 2,487 square kilometers. Ningguo recorded an economic growth in 2022, achieving a GDP of c. RMB45.4 billion, with a year-on-year growth of 6.0%. Its GDP scale was ranked 2nd out of all cities, districts and counties of Xuancheng in 2022. The aggregate fiscal revenue of the Ningguo government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Ningguo government maintained steady growth in the past three years, and reached RMB3.7 billion in 2022, representing a year-on-year increase of 7.0%. At the same time, the government fund income, which was mainly generated from land sales, stayed stable in the past 3 years. The budget deficit of the Ningguo government was 46.5% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Ningguo government was high. The special purpose debt constituted a high proportion of the total debt.

Rating Sensitivities

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

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