

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Qingdao Economic and Technological Development Zone Investment Holding Group Co., Ltd.

HONG KONG, 9 October 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Qingdao Economic and Technological Development Zone Investment Holding Group Co., Ltd. (“QEDIH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of West Coast New Area, Qingdao City (“West Coast New Area government”) would provide strong support to QEDIH if needed, in light of its indirect full ownership of QEDIH, QEDIH’s strategic importance as the key local investment and development company (“LIDC”) responsible for infrastructure construction and innovative industries integration in the West Coast New Area, Qingdao City (“West Coast New Area”) (“Qingdao”), and the linkage between the West Coast New Area government and QEDIH, including management appointments, strategic alignment, supervision of major investment and financing plans and ongoing operational and financial support. In addition, the West Coast New Area government may face significant negative impact on its reputation and financing activities if QEDIH encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that QEDIH’s strategic importance would remain intact while the West Coast New Area government will continue to ensure QEDIH’s stable operation.

Key Rating Rationales

West Coast New Area Government’s Ownership and Supervision: The West Coast New Area government indirectly holds 100% ownership of QEDIH through the Qingdao West Coast New Area State-owned Assets Administration. The West Coast New Area government has the final decision-making authority and supervision over the company, including management appointments, strategic development and investment planning, and major funding decisions. In addition, the West Coast New Area government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to West Coast New Area and Strategic Alignment: QEDIH, as the main implementation entity for infrastructure construction and integration of innovative industries in the West Coast New Area, plays an important role in promoting the economic development and innovation integration of the region. The company is primarily responsible for the infrastructure constructions in the core area of Guzhenkou and Qingdao Economic and Technological Development Zone among the ten functional areas of the West Coast New Area,

and the construction of industrial parks, office buildings, R&D centers, security centers and other projects related to innovation integration, as well as equity investment in related projects. QEDIH's business operation and development have been aligned with the government's development plans.

Ongoing Government Support: QEDIH 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 West Coast New Area. In 2020-1H2023, QEDIH received subsidies totaling around RMB201 million. QEDIH received about RMB9.5 billion of project-specific funds (mainly for infrastructure constructions conducted by its subsidiaries), 100% equity of Qingdao Civil-Military Integration Development Group Co., Ltd., and 100% equity of Qingdao UPC Holding Co., Ltd. (青岛中石大控股有限公司) during the period. Besides, the West Coast New Area government provides policy supports to QEDIH in land acquisitions and tax deductions.

QEDIH's Financial and Liquidity Position: QEDIH's total assets more than doubled to RMB110.4 billion at end-1H2023 from RMB45.9 billion at end-2020. The increase in QEDIH's total assets was primarily due to continuous investment in projects under construction and changes in consolidated entities. Although QEDIH's current assets accounted for a significant portion of total assets (about 67.0% at end-1H2023), overall asset liquidity was weak due to its high development costs and significant restricted assets for debt borrowings. QEDIH's adjusted total debt increased significantly to RMB62.7 billion at end-1H2023 from RMB26.0 billion at end-2020. QEDIH mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to continue.

The liquidity of QEDIH was moderately weak. At end-June 2023, QEDIH had unrestricted cash balance and unused credit facilities of RMB11.7 billion and RMB43.3 billion, respectively, compared with its debt due within one year of RMB22.5 billion. Besides, QEDIH has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of West Coast New Area: The West Coast New Area is located in the southwest of the Qingdao City. It is one of the seven urban districts of Qingdao. West Coast New Area recorded an economic growth in 2022, achieving a GDP of RMB469.2 billion, with a year-on-year growth of 4.8%. Its total GDP ranks first among all districts and counties in Qingdao. The aggregate fiscal revenue of the West Coast New Area government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the West Coast New Area government reached RMB22.4 billion, but the tax revenue decreased due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income was more volatile, dropping to RMB19.5 billion in 2022 from RMB25.6 billion in 2021. The fiscal self-sufficiency rate of the West Coast New Area government was sufficient, but it recorded budget deficit of 8.0% in 2022, the first budget deficit in the past few years. Given that the West Coast New Area government borrowed heavily in special debts to support its public projects, its fiscal debt ratio,

as measured by total government debt outstanding/aggregate revenue, increased to 107.8% at end-2022 from 19.6% at end-2018.

Rating Sensitivities

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

We would consider upgrading QEDIH's rating if (1) there is strengthened support from the West Coast New Area government, or (2) there is an upgrade in our internal credit assessment on the West Coast New Area 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 QEDIH'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.

Contact Information

Primary Analyst
Karis Fan, CESGA
Analyst
(852) 3462 9579
karis.fan@lhratingsglobal.com

Secondary Analyst
Joyce Huang, CFA
Managing Director
(852) 3462 9586
joyce.huang@lhratingsglobal.com

Committee Chairperson
Toni Ho
Director
(852) 3462 9578

toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.