

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Fuyang Yingquan Industrial Investment Development Co., Ltd.

HONG KONG, 21 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Fuyang Yingquan Industrial Investment Development Co., Ltd. (“FYIID” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Yingquan Government’s Ownership and Supervision: The Yingquan government holds the full ownership of FYIID through the Fuyang City Yingquan District State-owned Assets Supervision and Administration Commission. The Yingquan government is the actual controller of the company. It 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 Yingquan 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 Yingquan and Strategic Alignment: FYIID, as the key LIDC in Yingquan, is primarily responsible for the construction of industrial-related infrastructure and industrial development within Yingquan, especially in the Anhui Fuyang Yingquan Economic Development Zone (“Yingquan EDZ”). With a focus on industrial development in the area, the company engages in activities such as industrial park construction, industrial investments, and related road and utility network construction within the region. Additionally, the company is involved in the construction of industrial buildings, talent apartments, and other supporting facilities in the industrial parks it constructed, with strong regional advantages. The company’s

business operation and development have been aligned with the government's development plans.

Ongoing Government Support: FYIID received operational and financial support from the government. FYIID received a total subsidy of RMB488.8 million from 2020 to 2022. The Yingquan government continued to inject capital and other assets into FYIID to expand its asset size. Besides, the Anhui Yingquan Economic Development Zone Management Committee will repurchase some infrastructure projects and provide policy supports to FYIID to ensure its business operation. Given that it is the major entity for infrastructure construction and industrial park construction in Yingquan EDZ, FYIID has an advantage in acquiring land resources and major projects. We believe FYIID is likely going to receive government support to support its daily business operation.

FYIID's Financial and Liquidity Position: FYIID's total assets showed a continuous growth trend in the past years and reached RMB10.6 billion at end-2022, mainly due to the increase of inventories, which have steadily increased in tandem with the company's infrastructure construction projects. The current assets of FYIID accounted for 68.6% of total assets at end-2022, but the overall asset liquidity was moderately weak due to large proportion of inventories and receivables.

FYIID's financial leverage (total liabilities to total assets) was 36.5% and its adjusted debt increased to RMB3.2 billion at end-2022 from RMB1.4 billion at end-2021. The liquidity of FYIID was sufficient. FYIID had a cash balance and unused credit facilities of RMB671.9 million and RMB1.2 billion at end-2022, respectively, compared with its debt due within one year of RMB749.5 million. Besides, FYIID has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Yingquan: Yingquan is a district of Fuyang City, Anhui Province and lies in the center of Fuyang with a total land area of 641square kilometers. Yingquan's GDP growth rate fluctuated in the past three years, which was 3.8%, 9.4% and 5.1% in 2020, 2021 and 2022, respectively. Its GDP reached RMB39.1 billion in 2022, which was ranked 7th out of all jurisdictions among all counties and districts under Fuyang's jurisdictions.

The aggregate fiscal revenue of the Yingquan government was mainly derived from the budgetary revenue and transfer payment from the higher government. The Yingquan government's budgetary revenue was volatile in the past three years, decreasing from RMB1.1 billion in 2020 to RMB1.0 billion in 2022. The financial sufficiency of Yingquan government was improving but still weak, and the budget deficit narrowed to 214.5% in 2022 from 268.5% in 2020. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Yingquan government surged to 264.4% in 2022, more than doubled compared with that in 2020.

Rating Sensitivities

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

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