

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Zhongxing Holding Group Co., Ltd.

HONG KONG, 6 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Jiangsu Zhongxing Holding Group Co., Ltd. (“JZHG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s government of Liyang (“the Liyang government”) would provide strong support to JZHG if needed. This mainly considers the Liyang government’s full ownership of JZHG, JZHG’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure development, resettlement housing construction and land consolidation in Liyang Economic Development Zone (“Liyang EDZ”), and the linkage between the Liyang government and JZHG, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Liyang government may face significant negative impact on its reputation and financing activities if JZHG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Liyang government owns 100% shares of JZHG through Liyang State-owned Assets Management Center (“Liyang SAMC”). The local government 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: JZHG is the most important LIDC undertaking infrastructure development, resettlement housing construction and land consolidation in Liyang EDZ. The company is responsible for promoting the local government’s initiative of integrating into Nanjing Metropolitan Area. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government provides ongoing support to JZHG. The local government injected cash capital, debts resolving funds, project assets and equity of local SOEs totaling RMB9.9 billion between 2020 and the first eight months of 2023. In

addition, JZHG received operational subsidies of RMB371 million in relation to its activities of providing public goods. We expect JZHG to receive ongoing support from the local government in the coming years considering its strategic importance in Liyang.

Economy and Fiscal Condition of Liyang: Liyang was listed in China's top 100 counties and managed to maintain its economic growth in the past three years, with growth rates of 4.6%, 10.1% and 6.2% in 2020, 2021 and 2022. Liyang realized a GDP of RMB141.6 billion in 2022. Liyang EDZ was established in 1992 and approved as a provincial economic development zone by Jiangsu Province Government in 1993. It adopts the strategy of connecting with Nanjing and integrating into Nanjing, and focus on the development of high-end equipment manufacturing, health, and conference and exhibition industries.

The aggregate fiscal revenue of the Liyang government was primarily derived from budgetary revenue and government fund income. The Liyang government's budgetary revenue decreased to RMB8.1 billion in 2022 from RMB8.7 billion in 2021, mainly due to the large-scale value-added tax refund policy to support the economy. Meanwhile, the Liyang government's budgetary expenditure increased to RMB12.8 billion in 2022 from RMB11.0 billion in 2021. As a result, the Liyang government's budget deficit widened to -57.7% in 2022 from -18.1% in 2021. Yet Liyang's government fund income, mainly generated by land sales, maintained a stable trend in the past three years and reached RMB28.3 billion in 2022, remaining the largest contributor to aggregate fiscal revenue.

The outstanding debt of the Liyang government continued to grow over the past three years. At end-2022, the Liyang government's outstanding debt reached RMB36.0 billion, representing a year-over-year growth rate of 24.2%, mainly due to the new issuance of special debt to support Liyang's development. As a result, the government debt ratio (total government debt/aggregate revenue) increased to 89.5% in 2022 from 66.9% in 2020.

JZHG's Financial and Liquidity Position: JZHG's asset size expanded rapidly in the past few years due to the company's active participation in Liyang EDZ's development. Its total asset almost tripled to RMB20.6 billion at end-August 2023 from RMB7.0 billion at end-2020. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. The company's total debt surged to RMB7.5 billion at end-August 2023 from RMB3.5 billion at end-2020. It also received multiple capital and assets injections from the local government, enhancing its equity to RMB11.4 billion from RMB3.1 billion over the same period. JZHG's financial leverage (total debt to capitalization) stayed largely stable between c. 53% and 58% between 2020 to 2022, and decreased substantially to 39.6% at end-August 2023 as the company received a capital injection of RMB1.5 billion from the local government.

The liquidity of JZHG was sufficient. At end-August 2023, JZHG had cash of RMB3.5 billion (including restricted cash of RMB598 million), compared to its debts due within one year of around RMB1.9 billion. Besides, the company also has access to various financing channels, including bank borrowings, and bond issuances, to support its debt repayments and business operations. At end-August 2023, JZHG had unused bank line of RMB1.9 billion.

Rating Sensitivities

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

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