

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Ningxiang Water Construction and Investment Co., Ltd.

HONG KONG, 2 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Ningxiang Water Construction and Investment Co., Ltd. (“NWCI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Ningxiang City, Changsha City (“Ningxiang government”) would provide moderate strong support to NWCI if needed, in light of its indirect full ownership of NWCI, NWCI’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for water-related infrastructure construction and operation, water supply, and utilization of water resources in Ningxiang City, Changsha City (“Ningxiang”), and the linkage between the Ningxiang government and NWCI, 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 Ningxiang government may face negative impact on its reputation and financing activities if NWCI encounters any operational and financial difficulties.

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

Key Rating Rationales

Ningxiang Government’s Ownership and Supervision: The Ningxiang government holds the full ownership of NWCI through Ningxiang City Development Investment Holding Group Co. Ltd. The Ningxiang 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 Ningxiang 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 Ningxiang and Strategic Alignment: NWCI, as the key LIDC in Ningxiang, is primarily responsible for the investment, development and operation of water-related infrastructure projects within the region. Serving as the sole entity in charge of water related resource management throughout the entire city, NWCI also focuses on production and supply of tap water, water pollution control and sewage treatment, as well as development and utilization of hydroelectric energy in Ningxiang with strong regional advantages. NWCI 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: NWCI received operational and financial support from the government. NWCI received a total subsidy amount of RMB105.8 million from 2020 to the first six months of 2023. The Ningxiang government continued to inject capitals, pipeline network assets, sand and gravel resources and other assets into NWCI to expand its asset size, totaling to RMB8.4 billion from 2020 to the first six months of 2023. Besides, the Ningxiang government will repurchase some water-related infrastructure projects and provide policy supports to NWCI to ensure its business operation. Given that it is the key entity for water-related infrastructure construction and operation in Ningxiang, NWCI has an advantage in acquiring related resources and major projects. We believe NWCI is likely going to receive government support to support its daily business operation.

NWCI's Financial Matrix and Liquidity Position: NWCI's total assets showed a continuous growth trend in the past years and reached RMB17.4 billion at end-June 2023, mainly due to the increase of other account receivables. The non-current assets of NWCI accounted for 64.2% of the total assets at end-June 2023, and the overall asset liquidity was moderately weak. NWCI's financial leverage (total liabilities to total assets) was 38% and its adjusted debt increased to RMB5.7 billion at end-June 2023 from RMB1.3 billion at end-2022. The liquidity of NWCI was sufficient. NWCI had a cash balance and unused credit facilities of RMB630.3 million and RMB3.2 billion at end-June 2023, respectively, compared with its debt due within one year of RMB2.0 billion. Besides, NWCI 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 Ningxiang: Ningxiang is a county-level city located in the west of Changsha City, Hunan Province, with a total land area of 2,906 square kilometers. Ningxiang recorded an economic growth in 2022, achieving a GDP of RMB122.7 billion, with a year-on-year growth of 4.7%. Its GDP scale was ranked 7th out of all districts and counties under the jurisdiction of Changsha in 2022.

The aggregate fiscal revenue of the Ningxiang government was mainly derived from the budgetary revenue and government fund income. The Ningxiang government's budgetary revenue increased to RMB7.9 billion in 2022 from RMB6.1 billion in 2020, with tax revenue accounting for 75.6%-77.5% of budgetary revenue. At the same time, the government fund income dropped to RMB14.5 billion in 2022 from RMB16.1 billion in 2021, owing to the weak property market. The budget deficit of the Ningxiang government was 65% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Ningxiang government increased to 76.4% at end-2022 (2021: 63.4%). The special purpose debt constituted a high proportion of the total debt.

Rating Sensitivities

We would consider downgrading NWCI's rating if (1) there is perceived weakening in support from the Ningxiang government, particularly due to its reduced strategic importance with

diminished government functions, or (2) there is a significant reduction of the Ningxiang government's ownership of NWCI, or (3) there is a downgrade in our internal credit assessment on the Ningxiang government.

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