

**Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Xi’an Kingfar Holding (Group) Co., Ltd.**

HONG KONG, 27 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Xi’an Kingfar Holding (Group) Co., Ltd. (“Xi’an Kingfar” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Management Committee of XETDZ (“XETDZ MC”), the de facto local government of Xi’an Economic and Technology Development Zone (“XETDZ”), would provide strong support to Xi’an Kingfar if needed, in light of its direct full ownership of Xi’an Kingfar, Xi’an Kingfar’s strategic importance as the most important local investment and development company (“LIDC”) responsible for city development and operation in XETDZ, and the linkage between the local government and Xi’an Kingfar, 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 local government may face significant negative impact on its reputation and financing activities if Xi’an Kingfar encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** XETDZ MC directly holds 100% ownership of Xi’an Kingfar. The local government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

**Strategic Importance to Suining and Strategic Alignment:** Xi’an Kingfar is the most important LIDC in XETDZ that engages in city development projects and operates the city’s utilities. The company undertakes major municipal works such as construction of public facilities, infrastructures and schools, supplies heat and provides city sanitation, landscaping, property management and leasing services within the region. It also develops industrial parks to promote local economic development. The company’s business operation and strategic planning have been aligned with the government’s development plans.

**Ongoing Government Support:** Xi'an Kingfar receives ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. Between 2020 and the first nine months of 2023, the local government injected capital of RMB791 million into Xi'an Kingfar, enlarging its paid-in capital to RMB74.2 billion from RMB66.3 billion. The local government provided financial subsidies amounting to RMB404 million over the same period to Xi'an Kingfar to support its activities in relation to public interest. In addition, the company received project funds, equipment and equity of local SOEs from the local government. We believe that the government support will remain intact given the company's strategic importance in XETDZ.

**Economy and Fiscal Condition of XETDZ:** XETDZ, located in the North of Xi'an, Shaanxi province ("Shaanxi"), was established in 1993 and has been approved national development zone in 2000. It is an advanced manufacturing base in Shaanxi, attracting many well-known manufacturers, such as Shacman, Geely, Longi, ABB, BOSCH and Siemens, etc. to build production plants within the region. XETDZ's GDP growth rate fluctuated in the past three years, which was 3.0%, 10.9% and 6.5% in 2020, 2021 and 2022, respectively, owing to the disruption of Covid. Benefited from its strong industrial base, XETDZ's GDP reached RMB112.5 billion in 2022, ranked 2<sup>nd</sup> among eight economic development zones in Xi'an.

The aggregate fiscal revenue of the XETDZ is mainly derived from budgetary revenue and government fund income. As the result of the value-added tax credit refund policy, the budgetary revenue decreased to RMB3.7 billion in 2022 from RMB4.7 billion in 2021. Yet it's the tax revenue's contribution and fiscal self-sufficiency rate remained relatively high. Over the same period, XETDZ's government fund income, mainly generated by the land concession revenue, dropped even more to RMB4.0 billion from RMB6.3 billion, owing to the property market downturn.

XETDZ's government debt was manageable. The outstanding showed a downward trend, decreasing from RMB7.1 billion in 2020 to RMB6.7 billion in 2022. However, the government debt ratio (total government debt outstanding/aggregate revenue) increased to 60.8% in 2022 from 46.6% in 2021, owing to larger the decline in aggregate fiscal revenue.

**Xi'an Kingfar's Financial and Liquidity Position:** Xi'an Kingfar's total assets showed a continuous growth between 2020 and the first nine months of 2023, owing to the company's active participation in XETDZ's development and investment. The company mainly relied on borrowings to fund its asset expansion. Its total debt increased to RMB40.7 billion at end-September 2023 from RMB24.1 billion at end-2020. Yet the company also received capital and assets injections from the local government. Therefore, Xi'an Kingfar's financial leverage, as measured by debt/capitalization, stayed at between 65% and 70%, a moderately high level.

Xi'an Kingfar's short-term debt repayment pressure was high. At end-September 2023, Xi'an Kingfar had cash balance of RMB5.5 billion (including restricted cash of RMB974 million), compared with its debts due within one year amounting to RMB19.7 billion. Nevertheless, it has access to various financing channels, including bank borrowings, bond issuance and

other non-traditional financing to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB34.1 billion.

### **Rating Sensitivities**

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

We would consider upgrading Xi'an Kingfar's rating if (1) there is strengthened support from the local government, or (2) there is an upgrade in our internal credit assessment on the local 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 Xi'an Kingfar'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](http://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  
Roy Luo, FRM, CESGA  
Associate Director  
(852) 3462 9582  
[roy.luo@lhratingsglobal.com](mailto:roy.luo@lhratingsglobal.com)

Secondary Analyst  
Karis Fan, CESGA  
Analyst  
(852) 3462 9579  
[karis.fan@lhratingsglobal.com](mailto:karis.fan@lhratingsglobal.com)

Committee Chairperson  
Toni Ho, CFA, FRM  
Director  
(852) 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Business Development Contact  
Joyce Chi, CESGA  
Managing Director  
(852) 3462 9569  
[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

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