

Lianhe Global publishes ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yangzhong Oasis Industry Investment Group Co., Ltd.

HONG KONG, 26 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, publishes ‘BBB-’ global scale Long-term Issuer Credit Rating to Yangzhong Oasis Industry Investment Group Co., Ltd. (“YZOI” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Yangzhong Government’s Ownership and Supervision: The Yangzhong government directly holds 100% shares of YZOI. The Yangzhong government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Yangzhong government formulates 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: YZOI, as an important LIDC in Yangzhong, is primarily responsible for infrastructure construction and asset operation in Yangzhong. YZOI is mainly engaged in the investment and construction of urban transportation infrastructure, industrial parks, shantytown renovation and other key projects, as well as industrial investment and asset management in Yangzhong. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Yangzhong government provided ongoing support to YZOI. The company has had a stable track record of receiving subsidies of around RMB591 million from the Yangzhong government every year since 2020. We expect YZOI to receive

ongoing support from the Yangzhong government in the coming years considering its strategic importance in Yangzhong.

Economy and Fiscal Condition of Yangzhong: Yangzhong is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Zhenjiang City on behalf of Jiangsu Province. Yangzhong's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 54.3% and 42.6% in 2022, respectively. GDP per capita of Yangzhong was c. RMB185,400 in 2022, which was higher than the GDP per capita of Zhenjiang (c. RMB148,200) as well as that of China (c. RMB85,700).

The Yangzhong government's budgetary revenue decreased to c. RMB3.6 billion in 2022 from c. RMB3.8 billion in 2021, mainly due to large-scale value-added tax credit refund policy. The Yangzhong government's aggregate revenue relied on the income from the government fund income which contributed c. 50% of its aggregate revenue over the same period, which could make it vulnerable to the recent property market downturn. In addition, the Yangzhong government's fiscal self-sufficiency rate was moderately weak, and the government debt was moderately high.

YZOI's Financial and Liquidity Position: YZOI's total assets declined in 2022, which was mainly due to the repayment of debts. Correspondently, its financial leverage has shown a significant downward trend since 2021. The company's total debt also decreased to RMB18.0 billion at end-June 2023 from RMB23.5 billion at end-2020, while its equity remained largely stable in the past few years. As a result, the company's financial leverage (total debt to capitalization) decreased to 43.5% at end-June 2023 from 51.0% at end-2020.

The liquidity of YZOI was tight. At end-June 2023, JZHG had cash of RMB2.1 billion (including restricted cash of RMB1.7 billion), compared to its short-term debts of RMB6.2 billion. Nevertheless, the company also has access to various financing channels, including bank borrowings, and bond issuances, to support its debt repayments and business operations. In addition, the company had unused bank lines of RMB1.8 billion.

Rating Sensitivities

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

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