

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Linqu Economic Development Investment Group Co., Ltd.**

HONG KONG, 5 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Linqu Economic Development Investment Group Co., Ltd. (“LQED” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Linqu County (“Linqu government”) would provide strong support to LQED if needed, in light of its full ownership of LQED, LQED’s strategic importance as an important LIDC responsible project development and state-owned assets operation in Linqu County (“Linqu”), and the linkage between the Linqu government and LQED, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the Linqu government may face significant negative impact on its reputation and financing activities if LQED encounters any operational and financial difficulties.

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

**Key Rating Rationales**

***Linqu Government’s Ownership and Supervision:*** The Linqu government holds 100% ownership of LQED through Linqu State-owned Asset Service Center (“Linqu SASC”). As the ultimate controller of LQED, Linqu government has strong control 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 Linqu government has assessment mechanism over the company through Linqu SASC and appoints auditors to supervise the operating performance and financials on a periodic basis.

***Strategic Importance and Strategic Alignment:*** LQED is an important LIDC responsible project development and state-owned assets operation in Linqu. The company develops industrial parks as well as servicing and supporting facilities to promote the development of aluminum industry, the pillar industry of Linqu. The company also operate important utilities (steam and heat supply) within the region. Its business operation and strategic planning have been aligned with the local government’s development plans, playing a significant role in promoting the economic and social development in Linqu.

***Ongoing Government Support:*** LQED receive ongoing government support in forms of capital/asset injections and operational subsidies to support its business operations. The

Linqu government transferred equity of several state-owned enterprises valued at RMB156 million in 2020 and lands valued at RMB3.3 billion in the first half of 2023 to LQED. In addition, LQED received operational subsidies amounting to RMB31 million between 2020 and the first half of 2023 from the local government. We believe that the government support will remain intact given the company's strategic importance in Linqu.

***Economy and Fiscal Condition of Linqu:*** Linqu is a county under the jurisdiction of Weifang City, Shandong Province ("Weifang"). Linqu is known as "Aluminum Capital of China". It has a well-developed aluminum industry claiming approximately a quarter production capacity of aluminium products of Shandong Province. However, its GDP scale relatively small, amounting to RMB40.9 billion and ranked 10<sup>th</sup> out of twelve jurisdictions of Weifang in 2022. Linqu's economic growth rate fluctuated in the past few years, owing to Covid's disruption, while its fixed asset investment growth rate was on an upward trend.

The Linqu government's budgetary revenue decreased by 2.9% year-over-year to c. RMB2.5 billion in 2022, due to the large-scale value-added tax credit refund policies to support the economy. The Linqu government's fiscal self-sufficiency rate was low, and it recorded a budget deficit of 94.5% in 2022.

The outstanding government debt of the Linqu increased to RMB11.4 billion at end-2022 from RMB8.2 billion at end-2020, mainly due to the increase in special debt to support local project development. As a result, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 98.1% from 82.8% over the same period.

***LQED's Financial and Liquidity Position:*** As LQED actively participated in the project development in Linqu, its total asset surged to RMB10.2 billion at end-June 2023 from RMB2.9 billion at end-2020. Its total debt reached RMB1.6 billion at end-June 2023 (end-2020: RMB180 million). LQED's financial leverage, as measured by debt/capitalization, was at a manageable level, staying at 20.7% at end-June 2023.

LQED's asset quality was moderately weak, as the company's project development activities accumulated sizeable inventories (mainly lands to be developed) and construction in progress, representing 56.4% and 11.7% of the company's total asset at end-June 2023, respectively. These project related assets usually take a long time to monetize due to protracted construction and payback periods.

LQED's short-term debt servicing pressure is manageable. At end-June 2023, LQED had unrestricted cash balance of RMB509 million, compared with its debt due within one year of RMB271 million. However, LQED's financing channel was limited, as the company mostly relied on bank borrowings and some non-traditional financing. The company only had unused credit facilities amounting to RMB142 million at end-June 2023 to support its debt repayments and business operations.

## Rating Sensitivities

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

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

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