

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

HONG KONG, 1 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shandong Xingyu Investment and Construction Group Co., Ltd. (“SXICG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yutai County, Jining City (“Yutai government”) would provide very strong support to SXICG if needed, in light of its full ownership of SXICG, SXICG’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction and land development in Yutai County, Jining City (“Yutai”), and the linkage between the Yutai government and SXICG, 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 Yutai government may face significant negative impact on its reputation and financing activities if SXICG encounters any operational and financial difficulties.

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

Key Rating Rationales

Yutai Government’s Ownership and Supervision: The Yutai government holds the full ownership of SXICG through the State-owned Assets Supervision and Administration Bureau of Yutai County (“Yutai SASAB”). The Yutai 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 Yutai 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 Yutai and Strategic Alignment: SXICG, as the key LIDC in Yutai, is primarily responsible for the investment, development and operation of infrastructure projects and land development projects within the city. Serving as the sole entity in charge of infrastructure projects throughout the region, SXICG is mainly engaged in shantytowns development, urban renewal, road construction and upgrading and other infrastructure related projects with strong regional advantages. It is also entrusted with the function of land development and sewage treatment in Yutai. SXICG 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: SXICG received operational and financial support from the Yutai government. SXICG received a total subsidy amount of RMB867.2 million from 2020 to the first six months of 2023. The Yutai government continued to inject capital, project-related assets, right of use assets, equities of other companies and other kinds of assets into SXICG to expand its asset size and diversify its business. Besides, the Yutai government will repurchase some infrastructure projects and provide policy supports to SXICG to ensure its business operation. Given that it is the sole entity for infrastructure construction and land development in Yutai, SXICG has an advantage in acquiring related resources and major projects. We believe SXICG is likely going to receive government support to support its daily business operation.

SXICG's Financial and Liquidity Position: SXICG's total assets showed a continuous growth trend in the past few years and reached RMB16.9 billion at end-June 2023, largely attributed to the increase of inventories that related to the company's infrastructure construction business. The current assets of SXICG accounted for 95.5% of the total assets at end-June 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and receivables. SXICG's financial leverage (total liabilities to total assets) was 51.7% and its adjusted debt increased to RMB6.5 billion at end-June 2023 from RMB3.6 billion at end-2020. The liquidity of SXICG was sufficient. At end-June 2023, SXICG had a cash balance and unused credit facilities of RMB421.1 million and RMB897.2 million, respectively, compared with its debt due within one year of RMB904.4 million. Besides, SXICG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Yutai: Yutai realized GDP of RMB23.3 billion in 2022, representing a year-on-year growth rate of 4.4%. Its economic growth was mainly fueled by the tertiary industries in the past few years, which accounted for 46.7% in 2022. Yutai's economic development focused on cultural tourism and digital economy industry in recent years. Its fixed asset investment growth rate was on an upward trend in the past few years, recording at 11.2% in 2022.

The Yutai government's budgetary revenue maintained continued growth in the past few years and reach RMB1.4 billion in 2022. The tax revenue accounted for 73.3% of the budgetary revenue in 2022, down from 84.3% in 2021, mainly due to related tax-advantaged policies. As another substantial component of the local fiscal revenue, Yutai's government fund income decreased to RMB2.2 billion in 2022 from RMB2.3 billion in 2021, owing to the weak property market. The budgetary expenditure remained at a high level in recent years, thus its budget balance recorded at -142.6% in 2022. The transfer payment increased to RMB1.9 billion in 2022 from RMB1.8 billion in 2021. The outstanding debt of the Yutai government continued to grow. At end-2022, the Yutai government's outstanding debt was RMB7.2 billion. Given the Yutai government borrowed heavily in special debts to support its public projects, its fiscal

debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 125.7% at end-2022 from 88.9% at end-2020.

Rating Sensitivities

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

We would consider upgrading SXICG's rating if there is an upgrade in our internal credit assessment on the Yutai 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 SXICG'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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