

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

HONG KONG, 28 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Weihai Nanhai Investment Development Co., Ltd. (“WNID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Wendeng District, Weihai City (“Wendeng government”) would provide strong support to WNID if needed, in light of the Nanhai New Area Management Committee (“NNA MC”)’s full ownership of WNID, WNID’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset management in the Nanhai New Area, and the linkage between the local government and WNID, 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 WNID encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that WNID’s strategic importance would remain intact while the Wendeng government and NNA MC will continue to ensure WNID’s stable operation.

Key Rating Rationales

Government’s Ownership and Supervision: NNA MC, as the de facto local government of Nanhai New Area, directly holds the full ownership of WNID. NNA MC, as the actual controller of the company, 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 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 Wendeng District and Nanhai New Area and Strategic Alignment: WNID, as the key LIDC in Wendeng District (“Wendeng”), is primarily responsible for the investment, development and operation of infrastructure projects and state-owned management in Nanhai New Area. Serving as the key entity in charge of industrial development related infrastructure projects throughout the region, WNID is mainly engaged in industrial park construction and operation, sewage and heating pipeline installation, park road network renovation, upgrading and construction of infrastructure supporting facilities with strong regional advantages. It is also responsible for water supply and cultural tourism development. WNID plays an important role in promoting the economic, industrial and social

development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: WNID received operational and financial support from the government. WNID received a total subsidy amount of RMB1.1 billion from 2020 to the first nine months of 2023. The NNA MC continued to inject capital, real estate assets, equities of other companies and other kinds of assets into WNID to expand its asset size and diversify its business. Besides, the NNA MC will provide policy supports to WNID to ensure its business operation. Given that it is the key entity for infrastructure construction and state-owned management in Nanhai New Area, WNID has an advantage in acquiring related resources and major projects. We believe WNID is likely going to receive government support to support its daily business operation.

WNID's Financial and Liquidity Position: WNID's total asset increased steadily to RMB32.7 billion at end-2022 from RMB22.7 billion at end-2020, but decreased slightly to RMB32.5 billion at end-September 2023. The non-current assets of WNID accounted for 51.7% of the total assets at end-September 2023, and the overall asset liquidity was moderately weak due to large amount of inventories and receivables. WNID's financial leverage (total liabilities to total assets) was 48.2% and its adjusted debt increased to RMB6.1 billion at end-September 2023 from RMB4.0 billion at end-2021. The liquidity of WNID was moderately weak. At end-September 2023, WNID had a cash balance and unused credit facilities of RMB1.3 billion and RMB575.2 million, respectively, compared with its debt due within one year of RMB2.6 billion. Having said that, WNID 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 Wendeng: Wendeng is a district of Weihai City ("Weihai") of Shandong Province, and is located in the central of Wehai. Nanhai New District is a dispatching organization of Weihai. Since it had no independent treasury, its financial income and expenditure were included in the statistical scope of Wendeng. Wendeng realized a GDP of RMB50.9 billion in 2022, representing a growth rate of 1.5%.

The aggregate fiscal revenue of the Wendeng government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Wendeng government was volatile and dropped by 13.7% to RMB4 billion in 2022. At the same time, the government-managed fund income was volatile and dropped by 18.1% in 2022. The Wendeng government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was high and the outstanding government debt increased to RMB20.3 billion at end-2022.

Rating Sensitivities

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

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