

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Yundong Holding Group Co., Ltd.**

HONG KONG, 1 March 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Jiangsu Yundong Holding Group Co., Ltd. (“JYHG” or “the company”). The Outlook is Stable.

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

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

**Key Rating Rationales**

***Suyu Government’s Ownership and Supervision:*** The Suyu government holds the full ownership of JYHG through the State-owned Assets Supervision and Administration Office of the Suyu government (“Suyu SASAO”), the sole shareholder and the actual controller of the company. The Suyu government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Suyu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

***Strategic Importance to Suyu and Strategic Alignment:*** JYHG, as the most important LIDC for investment and financing for infrastructure construction in Suyu, is mainly responsible for infrastructure construction, affordable housing sales, water supply and sewage treatment within the region, with a strong regional franchise advantage. It plays an important role in the urban construction and economic development for the region. Its business operation and strategic planning have been aligned with the government’s development plans.

***Ongoing Government Support:*** JYHG continued to receive financial subsidies and asset/capital injections from the Suyu government to support its business operations. We believe the government support will remain intact given the company’s strategic role in the

economic development of Suyu. In 2022, the local government injected cash capital of RMB410.9 million into JYHG, enlarging its paid-in capital to RMB500 million from RMB89.1 million. Between 2020 and the first six months of 2023, JYHG received financial subsidies totaling around RMB723.6 million from the Suyu government. Meanwhile, the company received several equity transfers during the same period.

***JYHG's Financial and Liquidity Position:*** JYHG's total asset increased steadily to RMB47.6 billion at end-June 2023 from RMB36.3 billion at end-2020, as the company actively participated in Suyu's infrastructure development. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. JYHG's total debt continued to grow in the past few years and reached RMB19.3 billion at end-June 2023. The company's financial leverage, as measured by debt/capitalization was on an upward trend in the past few years, increasing from 41.8% at end-2020 to 48.3% at end-June 2023.

The liquidity of JYHG was weak. At end-June 2023, JYHG had unrestricted cash balance and unused credit facilities of RMB2.0 billion and RMB4.8 billion, respectively, compared with its debt due within one year of RMB8.3 billion. The company has available onshore bond issuance quota of RMB1.2 billion. JYHG mainly relies on external financing and it has access to various financing channels, including bank loans, bond issuance and non-traditional financing (such as financial lease) to support its debt repayment and business operations. Therefore, obtaining additional financing channels or government support is needed for the company to maintain its liquidity.

***Economy and Fiscal Condition of Suyu:*** Suyu is a district under the jurisdiction of Suqian City of Jiangsu Province ("Jiangsu"), and it is located in the north of Jiangsu. In 2022, the economic development of Suyu maintained growth, and its GDP was c. RMB43.02 billion, up 3.3% year-on-year. In 2022, affected by the value-added tax (VAT) credit refund policy, the budgetary revenue of Suyu was c. RMB3.5 billion with a growth rate of 0.43%, and the percentage of tax revenue decreased to 82.01% from 95.69% in 2020. The fiscal self-sufficiency rate of Suyu was insufficient and the fiscal deficit was relatively high. Nevertheless, Suyu continuously received subsidies income from higher government. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2022, the government fund income of the Suyu was c. RMB2.95 billion. At end-2022, the local government's outstanding debt was c. RMB8.56 billion, including RMB3.39 billion of general obligations and RMB5.17 billion of special debt.

### **Rating Sensitivities**

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

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