

Laoshan Science and Technology Innovation Development Group Co., Ltd.

Surveillance Report

Summary

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|---------------|--|
| Issuer Rating | BBB+ |
| Outlook | Stable |
| Location | China |
| Industry | Local Investment and Development Companies |
| Date | 25 April 2024 |

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer and Issuance Credit Rating of Laoshan Science and Technology Innovation Development Group Co., Ltd. (“QLSTI” or “the company”); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Laoshan District, Qingdao City (“Laoshan government”) would provide strong support to QLSTI if needed, in light of its direct full ownership of QLSTI, QLSTI’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for industrial park leasing and development, industrial investment and urban development in Laoshan District, Qingdao City (“Laoshan”), and the linkage between the Laoshan government and QLSTI, 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 Laoshan government may face significant negative impact on its reputation and financing activities if QLSTI encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Laoshan government directly holds the full ownership of QLSTI through the Finance Bureau of Laoshan District, Qingdao City (“Laoshan FB”), and is the actual controller of the company. The Laoshan government 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 Laoshan government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: QLSTI, as an important innovation and industrial investment LIDC in Laoshan, is primarily responsible for the industrial park leasing and development, urban development and industrial investment within the region with strong franchised advantages. The company undertakes functions such as technology venture capital investment, technology finance, industrial park projects development and operation, industrial guidance and investment attraction, according to the industrial development plan of the Laoshan government. The company also undertakes part of the urban renewal and area development projects on behalf of the Laoshan government. QLSTI plays an important role in promoting the economic development and industrial upgrading of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: QLSTI received operational and financial support from the government, amounting to RMB77.9 million and RMB17.8 million in 2022 and the first nine months of 2023. The Laoshan government continued to inject cash and other assets into

Key Figures of Laoshan and QLSTI (RMB billion)

| Laoshan | 2022 | 2023 |
|-----------------------|-------|--------|
| GDP | 108.1 | 115.1 |
| GDP growth rate (%) | 5.7 | 7.0 |
| Budgetary revenue | 20.4 | 22.0 |
| Government fund | 7.7 | 9.3 |
| Transfer payment | 3.4 | 3.5 |
| Budgetary expenditure | 14.2 | 14.5 |
| QLSTI | 2022 | 2023.9 |
| Assets | 28.4 | 35.4 |
| Equity | 13.5 | 13.5 |
| Revenue | 1.6 | 1.0 |

Source: Public information, QLSTI and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

QLSTI to expand its asset size and enhance its financial strength. Besides, the Laoshan government provides policy supports to QLSTI to ensure its business operation. We believe QLSTI is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

Economy and Fiscal Condition of Laoshan: Laoshan is a district of Weihai City of Shandong Province, and is located in the central of Weihai. Laoshan realized a GDP of RMB54.0 billion in 2023, representing a year-over-year growth rate of 6.5%, up from 1.5% recorded in 2022. Laoshan's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 40.4% and 47.9% of Laoshan's GDP, respectively, in 2023.

The aggregate fiscal revenue of the Laoshan government was mainly derived from the budgetary revenue and government-managed fund income. The budgetary revenue of the Laoshan government increased by 2.4% year-over-year to RMB4.1 billion in 2023, with the tax revenue accounting for 60.5% of the budgetary revenue. The government-managed fund income shrunk dramatically by 77.2% year-over-year to RMB2.9 billion in 2023, mainly due to the decreased of land use right transfer income amid challenging property market conditions.

The budget deficit of the Laoshan government slightly widened to 85.4% in 2023, mainly due to the increase in the budgetary expenditure. The debt ratio (total outstanding debt/aggregate fiscal revenue) of the Laoshan government was high. The local government's outstanding debt increased from RMB20.3 billion at end-2022 to RMB23.5 billion at end-2023, mainly due to the increase in special purpose debt.

QLSTI's Financial Matrix and Liquidity Position: QLSTI's total asset size grew rapidly to RMB35.4 billion at end-2023 from RMB28.4 billion at end-2022. The increase of QLSTI's total assets was largely due to its investment properties, which was driven by the transfer of some completed industrial park development projects. QLSTI's non-current assets accounted for a large proportion of total assets, reaching 75.5% at end-September 2023. QLSTI's financial leverage (total liabilities to assets) reached 61.9% at end-September 2023, up from 52.6% at end-2022, which increased slightly but tended to be at a stable level. In view of the relevant guidelines of the Laoshan government, we expect the financial leverage of QLSTI to stabilize at this level. QLSTI's debt structure was improving, although its adjusted total debt increased from RMB8.6 billion at end-2022 to RMB14.9 billion at end-September 2023, its short-term debt's proportion declined to 13.9% at end-September 2023 from 37.1% at end-2022, thus the company's short-term debt pressure ease up at a certain extent.

The liquidity of QLSTI was sufficient. At end-September 2023, QLSTI had a cash balance and unused credit facilities of RMB2.9 billion and RMB23.5 billion, respectively, compared with its debt due within one year of RMB2.1 billion at the same time. Besides, QLSTI has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Rating Sensitivities

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



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

Company Profile

QLSTI was established in 2013 with an initial registered capital of RMB108 million, funded by Qingdao Laoshan District State-owned Assets Administration. In 2016, all of QLSTI's equity was transferred to the Laoshan FB.

QLSTI, as the key LIDC in Laoshan, is mainly responsible for industrial park development and rental, industrial technology investment and urban development within the region. It undertakes functions such as technology venture capital investment, technology finance, industrial park development and operation, and industrial guidance, according to the industrial development plan of the Laoshan government.



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