

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

HONG KONG, 17 July 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Langxi Kaichuang Group Holdings Co., Ltd. (“LKGH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Langxi County, Xuancheng City (“Langxi government”) would provide very strong support to LKGH if needed, in light of its full ownership of LKGH, LKGH’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for project construction and state-owned asset operation in Langxi County (“Langxi”), Xuancheng City (“Xuancheng”), and the linkage between the Langxi government and LKGH, 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 Langxi government may face significant negative impact on its reputation and financing activities if LKGH encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Langxi government holds 100% ownership of LKGH via the Langxi Economic Development Zone Management Committee (“Langxi EDZMC”), which is both the sole shareholder and actual controller of the company. The Langxi 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 Langxi government formulates a performance assessment mechanism for the company and appoints auditors to review the company’s operating performance and financial position on a periodic basis.

**Strategic Importance to Langxi and Strategic Alignment:** LKGH is an important LIDC that is responsible for project construction and state-owned assets operation in Langxi. The company mainly engages in infrastructure construction, shantytown renovation and resettlement housing construction in Langxi Economic Development Zone (“Langxi EDZ”), with strong regional competitive advantage. It also engages in industrial land and plants construction, sales, operation, industrial park roof photovoltaic, “fishing and light complementary” surface photovoltaic power generation, accommodation and catering services in Langxi. It plays an important role in promoting the economic and social

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

**Ongoing Government Support:** LKGH continued to receive financial subsidies and asset/capital injections from the Langxi government to support its business operations. We believe the government support will remain intact given the company's strategic importance in Langxi. Between 2021 and 2023, LKGH received financial subsidies with the total amount of RMB59.0 million from the Langxi government. Meanwhile, the company received asset and capital injections from the Langxi government in the form of cash, lands, buildings, construction projects, equity transfers and other assets, which reached about RMB3.5 billion.

**LKGH's Financial and Liquidity Position:** LKGH's total assets increased to RMB9.9 billion at end-2023 from RMB8.1 billion at end-2021, mainly due to the government injected a large number of capital and assets into the company. The total debt of the company reached RMB4.4 billion at end-2023 from RMB3.0 billion at end-2021. At end-2023, the short-term debt and long-term debt accounted for 43.5% and 56.5% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, ranged between 44.2% and 48.6% in 2021-2023.

The short-term liquidity of LKGH was moderately weak. At end-2023, LKGH had cash balance of RMB130.3 million (including RMB15.1 million of restricted cash), compared with its debt due within one year of RMB1,926.2 million. Having said that, LKGH may use bank borrowings to support its debt repayments and business operations. At end-2023, LKGH had unused credit facilities of RMB3,538 million.

**Economy and Fiscal Condition of Yuecheng:** Langxi is a county under the jurisdiction of Xuancheng, Anhui Province and located in the northeastern part of Xuancheng. Langxi's economic growth fluctuated in the past few years, due to Covid's disruption, with GDP growth rate recording at 11.1%, 3.8% and 7.0%, respectively, in 2021, 2022 and 2023. Langxi's GDP reached RMB22.0 billion in 2023, which was ranked 4<sup>th</sup> among all jurisdictions of Xuancheng.

The Langxi government's aggregate revenue is mainly derived from budgetary revenue, which maintained a steady growth in the past few years and reached RMB2.3 billion in 2023, with tax revenue accounting for 59.8% of budgetary revenue. The financial self-sufficiency of Langxi government was weak and its budget deficit continued to widen in the past few years, recording at 73.5% in 2023. On the other hand, Langxi's government fund income slumped to RMB0.9 billion in 2023 from RMB1.2 billion in 2022, owing to the weak property market. The debt ratio, as measured by the total government debt/aggregate revenue, increased to 166.0% in 2023 from 135.9% in 2021, mainly due to the increase in special purpose debt.

### **Rating Sensitivities**

We would consider downgrading LKGH's rating if (1) there is perceived weakening in support from the Langxi government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Langxi

government's ownership of LKGH, or (3) there is a downgrade in our internal credit assessment on the Langxi government.

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