

Lianhe Ratings Global Limited has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Fangyang Holdings Co., Ltd.

HONG KONG, 5 September 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A’ global scale Long-term Issuer Credit Rating to Jiangsu Fangyang Holdings Co., Ltd. (“JFH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jiangsu Province (“Jiangsu government”) and the People’s Government of Lianyungang City, Jiangsu Province (“Lianyungang government”) would provide strong support to JFH if needed, in light of the government’s full ownership of JFH, JFH’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction, state-owned asset operation and agriculture development in Lianyungang City, Jiangsu Province (“Lianyungang”), especially in the Xuwei New District (“Xuwei District”), and the linkage between the government and JFH, 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 Jiangsu and Lianyungang government may face significant negative impact on its reputation and financing activities if JFH encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Lianyungang government directly holds the full ownership of JFH and is the actual controller of the company. As the sole shareholder of JFH, the Lianyungang 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 Lianyungang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Lianyungang and Strategic Alignment: JFH, as the key LIDC in Lianyungang and Jiangsu, is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as the key entity in charge of infrastructure projects in the Xuwei District, JFH focuses on constructing municipal and engineering projects. In addition, the company is also responsible for the land development, port logistics, public housing leasing, industrial park support services, public utility services, sewage treatment and agriculture development business, with strong regional advantages.

JFH has expanded its operations into the Guanyun Lingang Area, where it serves as the exclusive LIDC responsible for both infrastructure and industrial development. JFH 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.

Sole LIDC in Xuwei District Targeted with Regional Openness: JFH is the sole LIDC in Xuwei New District, playing a vital role in Lianyungang's and Jiangsu's foreign trade and openness. The company enjoys focused support from both provincial and municipal governments and collaborates closely with Jiangsu Port Group Co., Ltd., a key provincial LIDC in Jiangsu, to jointly advance regional economic and fiscal development. Xuwei District, one of China's seven major petrochemical bases and the sole based in Jiangsu, holds immense development potential. As a leading area in the National Demonstration Zone for East-Central-West Regional Cooperation, it serves as one of the most convenient maritime outlets along the Belt and Road Initiative. This strategic position is crucial to Jiangsu Province's economic landscape. In 2023, the district's foreign trade growth ranked first in Jiangsu, driving a 10.2% increase in regional GDP.

Ongoing Government Support: JFH received operational and financial support from the government. JFH received a total subsidy amount of RMB256.8 million from 2021 to the first three months of 2024, mainly including operating subsidies. The Lianyungang government continued to inject capitals and assets into JFH to expand its asset size. In 2024, RMB10.3 billion worth of port-related assets were transferred to the company, strengthening its logistics capabilities and revenue potential. Besides, the Lianyungang government will repurchase some infrastructure projects through Xuwei New District Administration Commission ("XNDAC") and provide policy supports to JFH to ensure its business operation.

Additionally, the Jiangsu government has entrusted the company with several provincial-level projects, providing relevant preferential policies to support its development within Xuwei New District. Given it is the key entity for infrastructure construction and land development in Lianyungang, especially in the Xuwei District, JFH has an advantage in acquiring land resources and major projects. We believe JFH is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

JFH's Financial Matrix and Liquidity Position: JFH's total assets showed a continuous growth in the past few years, and reached RMB120.4 billion at end-March 2024. The increase of JFH's total assets was largely due to the fixed assets and receivables, which have steadily increased in tandem with the company's construction projects, as well as the injection from the government. The non-current assets of JFH accounted for 67.4% of the total assets at end-March 2024, and the overall assets were less liquid. JFH's financial leverage (total liabilities to total assets) was 62.2% and its adjusted debt increased to RMB64.2 billion at end-March 2024.

The liquidity of JFH was sufficient. JFH had an unrestricted cash balance and unused credit facilities of RMB6.6 billion and RMB30.5 billion at end-March 2024, respectively, compared with its debt due within one year of RMB20.1 billion. Besides, JFH 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 Strength of Lianyungang: Lianyungang is a prefecture-level city of Jiangsu Province, with a total land area of c. 7,615 square kilometers. Lianyungang's economic growth rate accelerated to 10.2% in 2023 from 2.4% in 2022, and the GDP amount of Lianyungang reached RMB436.4 billion in 2023, which was ranked 13th among all Jiangsu's jurisdictions. The economic structure of Lianyungang was mainly driven by the secondary and tertiary industries, which accounted for 46.1% and 43.9% of its GDP in 2023, respectively.

The aggregate fiscal revenue of the Lianyungang government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Lianyungang government increased to RMB25.6 billion in 2023 from RMB21.3 billion in 2022, with the contribution of tax revenue elevated to 76.5% from 59.9% over the same period. The financial self-sufficiency of Lianyungang is insufficient and deteriorating, with the budget deficit widening to 124.5% in 2023 from 94.4% in 2022. In addition, the government fund income slightly rose to RMB27.6 billion in 2023 from RMB26.6 billion in 2022. The outstanding amount of the Lianyungang government's debt continued to expand in 2023, mainly due to the rise in special debts. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, declined to 84.5% at end-2023 from 85.4% at end-2022, mainly due to the larger increase in aggregate revenue.

Rating Sensitivities

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

We would consider upgrading JFH's rating if (1) there is strengthened support from the government, or (2) there is an upgrade in our internal credit assessment on the Jiangsu 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 JFH's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 31 July 2024, 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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