

General Corporate Criteria

Rating Criteria

Scope of the Criteria

Lianhe Ratings Global Limited ("Lianhe Global") applies the criteria to corporate entities that are not in the industry of banking, non-bank finance, regulated monopolies (e.g. utilities), not-for-profit, and providing public and government services.

The criteria do not represent a comprehensive coverage but only address key rating factors to form our credit opinions and will be reviewed periodically. Credit opinions tend to be forward-looking and include our views of issuers' future performance and development.

Lianhe Global's general corporate criteria were originally published on 16 July 2018.

General Approach

Lianhe Global evaluates corporate entities by first examining macro-level factors such as the operating environment, industry risk, and market demand, and then conducts the entity-level analysis. We strive to balance qualitative with quantitative analysis, applying a combination of weighted averages, matrix frameworks, and notching approaches to capture key rating factors. Our approach encompasses forward-looking estimates and forecasts to ensure a rigorous assessment.

We apply a scorecard using a weighted average approach to approximate a corporate entity's credit profile. Each key credit factor is assigned a grade in lowercase letters, ranging from the strongest "aaa" to the weakest "ccc and below." The weighted average outcome is then integrated with the industry risk assessment through a matrix to derive a Base Score. This Base Score is further modified using a notching approach, which incorporates additional adjustment factors such as liquidity and corporate governance, ultimately forming our credit view of the entity.

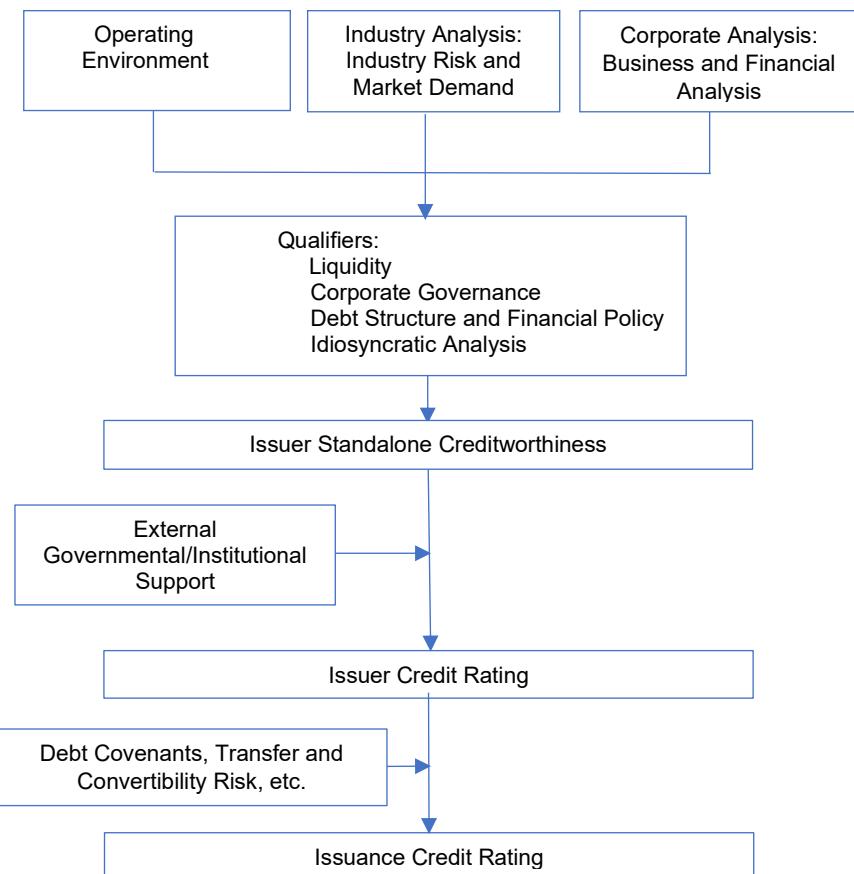
Overview

The rating framework comprises three key segments: (1) evaluating the operating environment of the country/region in which a corporate entity is domiciled, (2) assessing the industry in which the corporate entity operates, and (3) conducting corporate entity analysis, including its business and financial profile. Lianhe Global employs a weighted average approach to assess business and financial risks, along with the dominating factors that drive the credit profile of a corporate entity, enabling us to develop a holistic credit opinion.

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The rating framework for general corporates:


Operating Environment

We conduct an internal assessment of sovereign creditworthiness based on our sovereign rating criteria to assess the operating environment in the jurisdiction where a corporate entity is domiciled.

Internal Assessment Ceiling

For any country/region with an internal assessment of 'A-' or above, we typically do not apply any adjustment to a rated entity's credit rating. However, for any country/region with an internal assessment of below 'A-', we apply an adjustment factor to the rated entity, limiting its credit rating to the country/region's internal assessment. Nevertheless, a rated entity may receive a rating above the internal assessment of the country/region, which will be reviewed on a case-by-case basis by the credit rating committee.

When a corporate entity operates across multiple countries/regions, we may apply a weighted average approach, using EBITDA by country/region as the weighting factor for the internal assessment. If one country/region is dominant, its internal assessment serves as the primary determinant. Where EBITDA data by country/region is not available, revenue by country/region would be used as the basis for the weighting.



Industry Analysis

Industry Risk Assessment

Our assessment includes both historical and structural assessments of industry risk. The table below outlines the key factors used, with predetermined weights assigned.

Key Factor	Weight
Historical Industry Cyclical	40.0%
Barriers to Entry	15.0%
Industrywide Profitability	15.0%
Growth Potential	15.0%
Substitution Risk	15.0%
Total	100.0%

First, we evaluate **historical industry cyclical** by reviewing performance trends across economic cycles to understand the industry's sensitivity to macroeconomic fluctuations. Second, we assess **industry-specific features** focusing on four key dimensions: (1) **barriers to entry**, which indicate the level of protection against new competitors; (2) **industrywide profitability**, reflecting the sector's financial resilience and margin stability; (3) **growth potential**, assessing long-term demand drivers; and (4) **substitution risk**, which measures vulnerability to alternative products or services. Each of these factors receives a benchmark score from 1 (very low risk) to 7 (very high risk).

Benchmark Score	1	2	3	4	5	6	7
Historical Industry Cyclical	Stable demand across cycles; resilient in downturns	Minor demand fluctuations	Some cyclical exposure but manageable	Demand tracks GDP growth	Noticeable swings in demand during cycles	Strongly tied to economic conditions; sharp downturns	Extreme volatility; collapses in downturns
Industry-specific Features							
Barriers to Entry	Entry nearly impossible (due to huge capital expenditures, strict regulation, intellectual property rights, etc.)	Significant hurdles; incumbents well-protected	Entry possible but costly; scale advantages dominate	Entry requires effort but feasible; moderate differentiation	Entry relatively easy; limited protection	Few barriers; new entrants common	Open access; constant influx of competitors
Industrywide Profitability	Very strong and highly stable profit margin	Strong and stable profit margin	Above-average profit margin; low volatility	Average profit margin; moderate pressure	Moderately weak profit margin; notable pressure	Weak profit margin; material pressure	Very weak and volatile profit margin
Growth Potential	Very strong growth, innovation-rich	Strong growth; expanding markets	Above-average growth; niche opportunities	Steady growth; limited upside	Slow growth; mature industry	Stagnant demand; shrinking opportunities	Structural decline; long-term contraction
Substitution Risk	No viable substitutes	Limited alternatives	Some substitutes but low adoption	Substitutes exist; moderate adoption risk	Substitutes gaining traction; noticeable churn	Strong substitute presence; high elasticity	Dominant substitutes; industry at risk of obsolescence

The weighted average score is calculated by aggregating benchmark scores across these factors and then converted into a corresponding letter grade based on the grading table

below. Final determination of the assigned grade rests with the credit committee, which retains ultimate discretion.

If a corporate entity operates across multiple industries, we apply a weighted average approach using EBITDA by industry as the weighting factor. If EBITDA data by industry is not available, revenue by industry would be used.

Industry Risk Grade	Wtd. Avg. Score Min. Thresholds	Wtd. Avg. Score Max. Thresholds
aaa	0.5	1.5
aa	1.5	2.5
a	2.5	3.5
bbb	3.5	4.5
bb	4.5	5.5
b	5.5	6.5
ccc	6.5	7.5

Market Demand Analysis

We begin our market demand analysis by examining the aggregate demand of the country/region where a corporate entity conducts its business. We use the expected GDP growth rate as the benchmark. Industry demand is assessed by comparing the expected industry growth to the country/region's GDP growth. The table below outlines the key factors used, with predetermined weights assigned.

Key Factor	Description	Weight
Macro Demand	Expected aggregate demand	5.0%
Industry Demand	Expected industry demand	<u>10.0%</u>
Sub-total		15.0%

The table below outlines the benchmarks for aggregate demand (i.e. expected GDP growth) and industry demand (i.e. expected industry growth relative to GDP growth). We consider only monopolistic entities would fall into the most outstanding category, while only countries in disarray would fall into the worst category.

Market Demand	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Macro Demand	N/A	GDP growth between 6%-10%	GDP growth between 3%-6%	GDP growth between 1%-3%	GDP growth between 0%-1%	GDP growth less than 0%	N/A
Industry Demand	N/A	Substantially faster than GDP growth	Moderately faster than GDP growth	In-line with GDP growth	Moderately slower than GDP growth	Substantially slower than GDP growth	N/A

Business Analysis

Business analysis focuses on evaluating the viability of a corporate entity's business performance relative to its peers. To ensure consistency and analytical rigor, Lianhe Global applies a set of benchmarks for the assessment. The table below outlines the key factors used, with predetermined weights assigned. Lianhe Global acknowledges that the relevance of these factors may vary across industries and adjusts their weights as necessary to reflect the relative importance of each factor. Any significant idiosyncratic factor not captured would be addressed by using Qualifiers.



Key Factor	Weight
(1) Market Position	15.0%
(2) Competitiveness	10.0%
(3) Diversity	8.0%
(4) Operating Efficiency	6.0%
(5) Profitability	<u>6.0%</u>
Sub-total	45.0%

(1) Market Position: Lianhe Global evaluates a corporate entity's market position by analyzing three key secondary factors: (1) revenue size, (2) market share, and (3) market reach. Revenue size serves as the dominant factor, with market share and market reach acting as modifiers. Market share is assessed in terms of the number of competitors, while market reach is considered as a secondary indicator. In evaluating market position, Lianhe Global takes into consideration the GDP size of the entity's domiciled country/region relative to major global economies such as the United States, China, the European Union, and Japan. Historical revenue performance and forward-looking forecasts are considered in the scoring process. Where appropriate, Lianhe Global may exercise analytical judgment to override preset benchmark scores and assign scores that better reflect the entity's unique circumstances.

Market Position	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Revenue (in USD)	500-114 billion	114-30 billion	30-19.5 billion	19,500-2,000 million	2,000-500 million	500-100 million	<100 million
Market Share	Dominant with few competitors	Dominant with many competitors	Leading with few competitors	Leading with many competitors	Mid-sized with many similar competitors	Mid-sized with several larger competitors	Small size with many larger competitors
Market Position/Reach	Global	Multi-nationals	Regional/cross -continental	Nationwide	Multi-states/provinces	One or two states/provinces	Local

(2) Competitiveness: Lianhe Global assesses a corporate entity's competitiveness by examining two key secondary factors: (1) products and services, and (2) technological advantages. Products and services serve as the dominant factor, with technological advantages acting as a modifier. In addition, the transferability of products and especially services across jurisdictions may present challenges, which are taken into consideration during the evaluation. The ability of a corporate entity to venture into new markets, products, and business segments also acts as an indicator of its competitiveness.

When assessing competitiveness, we evaluate the pricing power of a corporate entity's products and services. Entities that offer unique or advanced products and services typically possess stronger pricing power. Conversely, those offering commodity-type products tend to have weaker pricing power due to the abundance of substitutes in the market. In terms of technological advantages, we consider pending patents, patents in force, drug pipelines in clinical trials, proven technologies in production, patented processes, etc. We use this ancillary factor to modify the former one where applicable. Technological advantages are a key driver of both current and future growth. They help prevent products and services from becoming obsolete, thereby preserving pricing power.

Competitiveness	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Products and Services	Unique products and services without peers; near monopolistic pricing power	Dominant products and services with few peers; strong pricing power	Differentiated products and services with many peers; strong pricing power	Differentiated products and services with many peers; competitive pricing power	Commodity like products and services; marginal pricing power	Commodity like products and services; minimal pricing power	Price takers
Technological Advantages	Highly advanced without peers	Highly advanced	Advanced	Competitive	Lagger	Becoming obsolete	Non-existence

(3) Diversity: Lianhe Global evaluates a corporate entity's diversity by examining two key secondary factors: (1) revenue concentration and (2) geographic diversification. Revenue concentration, the dominant factor, is modified based on geographic distribution.

We assess revenue concentration through the diversity of products and services offered. A broader product and service portfolio reduces concentration risk in the face of market downturns or competitive threats. Entities with uncorrelated offerings are generally more resilient during economic disruptions than those with highly correlated portfolios. In addition, we consider customer, supplier, and production concentration as secondary indicators. Excessive reliance on any of these areas is viewed as a potential vulnerability and may weaken the overall diversification profile.

Diversity	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Revenue/Product Concentration	≤ 10%	10% - 15%	15% - 25%	25% - 40%	40% - 60%	60% - 80%	> 80%
Geographic Diversification	Global	Multi-national	Regional/continental	Nationwide	Multi-states/provinces	One or two states/provinces	Local

(4) Operating Efficiency: Lianhe Global evaluates a corporate entity's operating efficiency by considering two key secondary factors: (1) utilization rate and (2) cost control. An entity with high fixed operating cost needs to maintain a high utilization rate to reach breakeven; otherwise, it may incur loss. Meanwhile, it should manage operating cost effectively to stay competitive.

Operating efficiency is assessed on a relative basis, with reference to industry norms. We typically use industry-specific benchmarks to gauge performance, such as lowest-cost producers in the aluminum industry, high load factors for airlines, high turnover rates and low inventory levels for retailers, and high occupancy rates for hotels.

Operating Efficiency	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Utilization Rate	Highest within industry	Leaders within industry	Above average	Industry average	Below average	Laggers within industry	Lowest within industry
Cost Control	Lowest cost producers within industry	Leaders in cost control within industry	Above average	Industry average	Below average	Laggers in cost control within industry	Highest cost producers within industry

(5) Profitability: Lianhe Global evaluates a corporate entity's profitability primarily by examining two indicators: (1) gross margin and (2) EBITDA margin. In addition, we assess the quality of profitability by examining the alignment between recognized revenue and actual cash receipts. We may apply adjustments if a significant portion of

revenue is recorded under accounts receivable with extended aging periods, as this may indicate elevated risk in the reliability of reported earnings.

Profitability	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Gross Margin	≥ 50%	40% - 50%	30% - 40%	20% - 30%	10% - 20%	5% - 10%	0% - 5%
EBITDA Margin	≥ 40%	30% - 40%	20% - 30%	10% - 20%	5% - 10%	0% - 5%	< 0%

Financial Analysis

Lianhe Global's financial analysis emphasizes a forward-looking view of a corporate entity's financial performance. While the assessment is fundamentally quantitative, we may make adjustments to reflect the inherent uncertainty of forecasts and the anticipated quality of the entity's financials.

Our analysis spans five fiscal years, with greater emphasis placed on the current fiscal year and the two succeeding years, which are more indicative of future performance. The two preceding fiscal years are considered primarily for historical context and trend validation. Accordingly, we allocate weights as follows:

Fiscal Year	Current Fiscal Year minus 2	Current Fiscal Year minus 1	Current Fiscal Year	Current Fiscal Year plus 1	Current Fiscal Year plus 2	Total
Weight	5.0%	10.0%	35.0%	30.0%	20.0%	100.0%

Lianhe Global uses a set of financial metrics as per our definition. Key metrics are listed below.

Key Metric	Description	Weight
(1) Debt / EBITDA	Gross Debt over EBITDA	15.0%
(2) EBITDA / Interest	EBITDA over Interest	12.0%
(3) Debt / Capitalization	Gross Debt over (Gross Debt + Equity)	8.0%
(4) Liquidity Ratios	Quick Ratio, Current Ratio, and Cash Ratio	<u>5.0%</u>
Sub-total		40.0%

Debt / EBITDA serves as a benchmark for debt coverage. It reflects the number of years required to repay outstanding debt based on current and projected EBITDA. A lower ratio indicates stronger debt coverage.

EBITDA / Interest measures the margin of safety for meeting interest obligations. A higher ratio suggests greater financial resilience.

Debt / Capitalization evaluates the capital structure and leverage level. Higher leverage implies greater potential returns for equity holders, although usually at the expense of bondholders.

Quick Ratio, defined as $(\text{Current Assets} - \text{Inventories}) / \text{Current Liabilities}$, is our primary measure of liquidity, as it reflects a corporate entity's ability to meet short-term obligations using its most liquid assets. Certain items, such as restricted cash and securities investments, may be excluded from liquid assets if they are deemed illiquid. We may consider additional metrics, such as the Current Ratio ($\text{Current Assets} / \text{Current Liabilities}$) and Cash Ratio ($\text{Cash and Cash Equivalents} / \text{Current Liabilities}$), when deemed appropriate.

Among these, we place greater emphasis on **Debt over EBITDA** and **EBITDA over Interest**, assigning them higher weights due to their significance in assessing debt coverage and interest servicing capacity. We adopt a conservative approach by considering only interest expense (including capitalized interest). Interest income is typically excluded unless the entity demonstrates its recurring nature as part of regular business operations. Additionally, we typically use gross debt. However, we may consider net debt (i.e., gross debt minus cash and cash equivalents) if the entity has demonstrated disciplined cash management with proven track records. Other adjustments may be applied if concerns arise regarding the quality or stability of financial components. For example, we may adjust shareholders' equity to exclude goodwill and/or valuation reserves, if these elements notably distort the true capital structure.

The table below outlines the key financial metrics and indicative benchmarks Lianhe Global uses to assess a corporate entity's financial strength.

Financial Metrics	aaa	aa	a	bbb	bb	b	ccc
Benchmark Score	1	3	6	9	12	15	18
Debt / EBITDA	≤ 1.5	$1.5 < x \leq 2.5$	$2.5 < x \leq 3.5$	$3.5 < x \leq 4.5$	$4.5 < x \leq 5.5$	$5.5 < x \leq 6.5$	> 6.5
EBITDA / Interest	≥ 20	$12 \leq x < 20$	$8 \leq x < 12$	$5 \leq x < 8$	$3 \leq x < 5$	$1 \leq x < 3$	< 1
Debt / Capitalization	$\leq 20\%$	$20\% < x \leq 30\%$	$30\% < x \leq 40\%$	$40\% < x \leq 50\%$	$50\% < x \leq 60\%$	$60\% < x \leq 70\%$	$> 70\%$
Liquidity Ratios:							
Quick Ratio	≥ 2	$1.5 \leq x < 2$	$1.2 \leq x < 1.5$	$1 \leq x < 1.2$	$0.8 \leq x < 1$	$0.5 \leq x < 0.8$	< 0.5

In the Absence of Financial Forecasts

While the financial analysis primarily evaluates the future financial metrics of a corporate entity, there are circumstances where financial projections may not be relevant or meaningful. This may arise when granular financial data is unavailable, when the roles, functions, or business nature of the entity are undergoing significant change, or when the business model relies heavily on policy direction or governmental guidance. In such cases, we believe realistic and reasonably predictable assumptions are not available. Consequently, financial forecasts may not provide a reliable view of the issuer's credit outlook, and we therefore do not apply financial forecasts in our financial analysis.

When forecasts are not considered, we assess the quantitative component of the financial analysis over a three-year fiscal period, placing greater emphasis on the most recent fiscal year. Specifically, we assign a weight of 70% to the current (latest) fiscal year and 30% in total to the two preceding fiscal years. Where quarterly or semi-annual financial statements are available after the close of the latest fiscal year, we also incorporate observed trends into our assessment. Accordingly, we allocate weights as below.

Fiscal Year	Current (Latest) Fiscal Year minus 2	Current (Latest) Fiscal Year minus 1	Current (Latest) Fiscal Year	Total
Weight	10.0%	20.0%	70.0%	100.0%

Weighted Average Score

The weighted average score is calculated by aggregating benchmark scores across the three categories: (1) Market Demand, (2) Business Analysis, and (3) Financial Analysis. This numeric score is then converted into a corresponding letter grade based on the grading table below. Final determination of the assigned grade rests with the credit committee, which retains ultimate discretion.

Credit Rating Scale	Wtd. Avg. Score Min. Thresholds	Wtd. Avg. Score Max. Thresholds
aaa	0.5	1.5
aa+	1.5	2.5
aa	2.5	3.5
aa-	3.5	4.5
a+	4.5	5.5
a	5.5	6.5
a-	6.5	7.5
bbb+	7.5	8.5
bbb	8.5	9.5
bbb-	9.5	10.5
bb+	10.5	11.5
bb	11.5	12.5
bb-	12.5	13.5
b+	13.5	14.5
b	14.5	15.5
b-	15.5	16.5
ccc+	16.5	17.5
ccc	17.5	18.5
ccc-	18.5	19.5

Industry Risk and Base Score

We apply a matrix approach by combining the weighted average score (or grade) with the industry risk assessment to derive a Base Score.

Qualifiers

The Base Score is further adjusted by four qualifiers, namely (1) Liquidity, (2) Corporate Governance, (3) Debt Structure and Financial Policy, and (4) Idiosyncratic Analysis, by a way of notching.

(1) Liquidity

Liquidity is a critical driver of financial health, as signs of distress typically emerge through a liquidity crunch. Lianhe Global evaluates a corporate entity's liquidity by analyzing (1) sources of liquidity and (2) uses of liquidity over a 12-month horizon and adjusts the Base Score accordingly.

We conduct a liquidity test by examining a corporate entity's cash position, short-term liquid assets, available bank credit lines, forecasted earnings, and projected proceeds from capital market financing activities against its maturing debt obligations, capital expenditures, and committed payments over the next 12 months. We may take bank credit facilities and available quota for issuing bonds as well as qualitative factors such as access to the capital market and relationship with banks into consideration. In addition, if we observe any significant fluctuations in the entity's stock or bond prices that could materially impair its financing capacity, we may reflect the potential impact under this liquidity assessment.

In addition, regarding the liquidity assessment under Qualifiers, we make reference to historical financials if no financial projections have been performed.

We assess the liquidity strength of a corporate entity to determine whether it meets the threshold aligned with its Base Score. If the entity meets or exceeds the threshold, no notching adjustment is applied. Otherwise, we deduct the appropriate number of notches from the Base score until the entity satisfies the corresponding liquidity requirement. Final decisions regarding liquidity adjustments rest with the credit committee. Based on our observation, lowly-rated entities typically receive a one- to two-notch deduction, whereas highly rated entities typically require no such adjustment.

Source of Liquidity	Use of Liquidity
Cash and short-term liquid investments	Maturing debt within a year
Cash flow from operating activities before changes in working capital	Planned dividend pay-out
Working capital inflows	Working capital outflows
Planned capital market financing activities	Planned capital expenditures
Planned asset sales	Planned acquisitions
External capital injections	Planned shares buyback
Unused bank credit facilities	Early redemption of debt

(2) Corporate Governance

We adopt a holistic approach to evaluating corporate governance, typically considering factors such as ownership and organizational structure, management quality and stability, board composition and committees, related-party transactions, external auditor opinions, material litigations, and prior regulatory sanctions. In general, we do not apply notching adjustments to listed companies unless there is clear evidence of rule violations. This reflects our view that listed entities, governed by listing rules and regulations, generally adhere to prudent governance practices, including timely disclosures, transparency, and effective board oversight. Nonetheless, private-owned companies are not necessarily indicative of governance concerns. Under this qualifier, we typically apply a maximum deduction of two notches.

Factor	Description	Key Considerations
Ownership and Organizational Structure	Examine the entity's ownership concentration and group hierarchy	Family ownership, cross-shareholdings, complexity of structure, transparency
Management Quality and Stability	Assess leadership competence and continuity	Experience, track record, turnover rate, succession planning
Board Composition and Committees	Review board independence and effectiveness of oversight bodies	Independent directors, committee structure, board diversity
Related-Party Transactions	Evaluate the nature and transparency of intra-group dealings	Frequency, materiality, disclosure quality, fairness of terms
External Audit	Consider the credibility and findings of external audits	Auditor reputation, audit qualifications, going concern warnings
Legal and Regulatory Exposure	Review exposure to legal disputes and regulatory actions	Severity, recurrence, resolution status, impact on governance and reputation

(3) Debt Structure and Financial Policy

Debt structure is evaluated through both maturity profile and composition. Long-term debt is generally preferred, as it provides more time for profit generation and repayment, while short-term obligations create greater refinancing pressure. The maturity profile is measured by the share of debt due within the coming year relative to total debt. Composition is assessed by the mix of financing instruments and channels, e.g. onshore versus offshore borrowings, secured versus unsecured facilities, loans from financial institutions versus non-traditional sources, and capital market versus private placements.



Financial policy is judged by its conservatism or aggressiveness. Conservative policies are typically reflected in debt growth that aligns with revenue growth, capital expenditures funded primarily from internal cash flow, and a balanced approach to stakeholder interests. Aggressive policies, by contrast, involve debt growth outpacing revenue, reliance on external funding, and thinner liquidity. Preference is given to conservative policies that tilt toward bondholder protection, with good liquidity and low leverage.

Other factors may also be incorporated into the analysis, such as foreign exchange risk due to currency mismatches between revenue streams and debt obligations, borrowing costs and terms, hedging positions, as well as off-balance sheet exposures. We may treat non-cancellable operating leases and third-party guarantees as debt where applicable, though securitization transactions are excluded unless they are debt in nature.

The table below illustrates the benchmark description of various financial policies.

Financial Policy Benchmark	Very Conservative	Conservative	Neutral	Aggressive	Very Aggressive
Revenue Growth vs. Debt Growth	Revenue growth substantially outstrips debt growth	Revenue growth outstrips debt growth	Revenue growth in tandem with debt growth	Debt growth outstrips revenue growth	Debt growth substantially outstrips revenue growth
Capital Expenditure	Use only internal funding for capex	Rely primarily on internal funding for capex and use external funding conservatively	Balance between internal and external funding for capex	Rely on external funding for expansionary capex as internal funding depletes	Rely primarily on external funding for maintenance capex
Balance between Stakeholders	Conservative financial policy with high level of liquidity and very low leverage	Financial policy favors bondholders with moderately low leverage	Balance stakeholders' interest (i.e. bond and equity investors) equally	Financial policy favors equity investors with moderately high leverage	Financial policy tilts to equity investors at the expense of bondholders

(4) Idiosyncratic Analysis

While our framework addresses most of the risk factors relevant to a corporate entity's credit profile, we recognize that unique circumstances may arise beyond its scope. In such cases, we conduct idiosyncratic analysis to ensure these special considerations are appropriately captured.

Standalone Credit

The resultant outcome from the qualifier notching adjustment analysis leads to the Standalone Credit, which reflects the creditworthiness of the subject corporate entity on a standalone basis.

External Support

As part of our analysis, we examine if a corporate entity receives any external support from its parent company (and/or affiliated companies) or government entities. We assess both the capability and willingness of the potential supporter to provide assistance to sustain the entity's viability.

Government Support

We consider that the government's long-term rating/internal credit assessment best captures its capability to provide support to a corporate entity. An entity's government

ownership and control, strategic importance, potential impact of default, and track record of support are key considerations in assessing the public authority's willingness to provide support.

Institutional Support

The institutional parent's credit strength as reflected in its issuer rating/internal credit assessment, its relative size to the subsidiary, and relevant regulations governing the group's operations (particularly the capital and liquidity flows within the group) affect the parent's ability to provide support. In cases where the parent's rating has factored in potential government support, we assess whether this support would flow through to the subsidiary.

The strategic importance of a corporate entity to its parent is usually the key factor in assessing the parent's willingness to provide support. The likelihood tends to be high should the subsidiary represent an essential part of the group's operation, carry the same brand name, and its failure may bring reputational risk to the group.

Final Credit Rating

The resultant outcome from the external support analysis leads to the Final Credit Rating – the Issuer Credit Rating - of the subject corporate entity.

Appendix: Rating Scale, Benchmarks and Scorecard

Rating Scale and Benchmarks

We apply a 7-category benchmark to guide the assessment of each business and financial factor in our scorecard. Each benchmark corresponds to a score on a scale of 1 to 19, with 1 representing the strongest performance and 19 the weakest. The lowercase letter grades (from 'aaa' to 'ccc'), together with benchmark descriptions, serve as a reference for analysts when assigning scores.

7-Category Benchmark	aaa	aa	a	bbb	bb	b	ccc
Pre-set Benchmark Score	1	3	6	9	12	15	18
Score Description	Highest	High	Moderately High	Median	Moderately Low	Low	Lowest
Benchmark Description	Very Strong	Strong	Moderately Strong	Average	Moderately Weak	Weak	Very Weak

Scorecard

Lianhe Global uses a scorecard system to assist analysts to perform their analytical work. Scorecards are used to guide analysts and they also act as checks and balances to safeguard the analytical integrity and consistency throughout the rating process. But by no means, these scorecards are substitutes for sound, independent and comprehensive analytical judgments. The table below illustrates an overview of Lianhe Global's general corporate scorecard.

Primary Factors	Weight/Notching	Secondary Factors	Sub-weight	Benchmark Scale
Operating Environment (Internal Assessment)				
Market Demand Analysis	15.0%	Wtd. Average Approach		
Corporate Analysis				
I. Business Analysis	45.0%	Wtd. Average Approach	Dynamic Weight	
		Market Position	15.0%	1 - 19
		Competitiveness	10.0%	1 - 19
		Diversity	8.0%	1 - 19
		Operating Efficiency	6.0%	1 - 19
		Profitability	6.0%	1 - 19
		Sub-total	45.0%	
II. Financial Analysis	40.0%	Wtd. Average Approach	Static Weight	
		Debt / EBITDA	15.0%	1 - 19
		EBITDA / Interest	12.0%	1 - 19
		Debt / Capitalization	8.0%	1 - 19
		Liquidity Ratios	5.0%	1 - 19
		Sub-total	40.0%	
Total Weight	100.0%	Total	100.0%	
III. Wtd. Average Score	aaa->ccc	Convert numeric to letters		Letters
IV. Industry Risk Assessment				
Base Score (grade)	aaa->ccc	Matrix Approach		Letters
V. Qualifiers:				
(1) Liquidity	notching varies	Notching Approach		
(2) Corporate Governance	varies (no notching up)			

(3) Debt Structure and Financial Policy	varies	
(4) Idiosyncratic Analysis	varies	
VI. Standalone Credit	aaa->ccc	Letters
VII. External Support	notching	Notching Approach
VIII. Final Credit Rating	AAA->CCC	Letters

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