

Lianhe Global has affirmed ‘BBB-’ global scale Long-term Issuer and Issuance Credit Rating to Liangshan Development (Holdings) Group Co., Ltd; Issuer Rating Outlook Stable

HONG KONG, 4 November 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating to Liangshan Development (Holdings) Group Co., Ltd. (“LDHG”). The Outlook is Stable.

Lianhe Global has also affirmed ‘BBB-’ global scale Long-term Issuance Credit Rating to the senior unsecured USD bonds issued by LDHG’s wholly-owned subsidiary Liang Shan International Development Limited, which is unconditionally and irrevocably guaranteed by LDHG.

The Issuer Rating reflects a high possibility that Sichuan’s Liangshan Yi Autonomous Prefecture (“Liangshan”) would provide strong support to LDHG if needed, in light of the Liangshan government’s majority ownership in LDHG, the high strategic importance of LDHG to Liangshan and the strong linkage between the Liangshan government and LDHG, including management supervision and strategic alignment. In addition, the Liangshan government may face significant adverse impact on its reputation, and business and financing activities should LDHG encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that LDHG’s strategic importance would remain intact while the Liangshan government will continue to ensure LDHG’s stable operation. The Liangshan government has provided ongoing strong support to LDHG, including asset and capital injections, financial subsidies, preferential tax policies, etc.

Key Rating Rationales

A Majority Stake by Liangshan: Liangshan has a majority ownership of LDHG via the State-owned Assets Supervision and Administration Commission of Liangshan (“SASAC of Liangshan”) which is appointed by the prefectural government to supervise state-owned entities. The remaining shareholders are the SASACs or Finance Bureaus of subordinate counties. In December 2018, LDHG increased its registered capital to RMB6,600 million from RMB5,372.19 million. SASAC of Liangshan expects to inject the new capital within three years and its ownership of LDHG would therefore increase to 65% from the current 57.13%.

High Strategic Importance: LDHG is Liangshan’s largest and most important investment and financing platform. The Liangshan government is committed to further developing LDHG with the sole responsibility as a state-owned investing and financing platform by consolidating state-owned enterprises and assets. Ongoing consolidations of industrial and capital resources through asset/capital injections and project acquisitions have expanded LDHG’s

business scope and asset size to RMB64.4 billion as of end-1H2019 from RMB50 billion as of end-2016.

LDHG has undertaken various major projects including mining, hydropower, and tourism resources to support the economic development in Liangshan. It is also responsible for financing and management of public welfare projects such as road infrastructure, kindergarten, medical and health, poverty alleviation, and shantytown renovations. LDHG has a monopoly advantage in mineral productions and road transportation in Liangshan and has been responsible for most of the government procurement.

Government Supervision and Strategic Alignment: SASAC of Liangshan has strong management supervision over LDHG (including approvals of board members and senior managers and major operating and financing plans) mainly through shareholder meetings and board meetings. LDHG's strategic planning and development have been aligned with the prefectural government's economic and social policies in areas such as poverty alleviation, education and infrastructure.

Ongoing Government Support: LDHG has received capital and asset injections from the Liangshan government directly or indirectly from state-owned entities. The injections include equity capital, land and other fixed assets. LDHG has also persistently received financial subsidies from the government mainly for supporting the public welfare services and poverty alleviation. Some of LDHG's subsidiaries have enjoyed preferential income tax rates, including its eight subsidiaries which have been classified as the enterprises in the western region carrying out the government's western development strategy.

Liangshan's Creditworthiness: Liangshan has constantly obtained strong support from the central and provincial governments mainly in the form of transfer payments. We expect the transfer payments to continue and likely be strengthened as China aims to eradicate extreme poverty by 2020, while the central government has designated 11 impoverished counties in Liangshan.

Liangshan, located in the southwest of Sichuan, is the major living area of the Yi ethnic group and one of the economically viable autonomous regions in China (ranked third among 30 autonomous regions by GDP of 2018). It received the transfer payments in excess of RMB30 billion per budgetary year in 2015-2017, and more than RMB40 billion in 2018. The strong fiscal support helps Liangshan maintain a low debt ratio (i.e. total government debt divided by aggregate fiscal revenue) of 38%, compared with 77.9% of Chengdu and 73.7% of Sichuan at end-2018.

Weak Standalone Profile: LDHG's standalone credit profile remains weak in view of its large debt-funded capital expenditure, resulting in continuous negative cash flow from its investment, high leverage and modest liquidity. LDHG's financial leverage (total liabilities to assets) was 66.1% at end-1H2019, slightly higher than the 64.3% at end-2017. RMB6.1 billion of the total outstanding debt (RMB18.3 billion) will be due within one year, compared with LDHG's unrestricted cash of RMB8.3 billion, unused medium-term note quota of RMB0.5 billion and available credit lines of RMB2.4 billion at end-1H2019. We expect the government support

through asset transfers to remain the major driver for LDHG's asset growth, while the management aims to maintain stable financial leverage by containing its debt financing.

Rating Sensitivities

We would consider downgrading LDHG's rating if (1) there is perceived weakening in support from Liangshan, particularly due to its reduced strategic importance if it is no longer the largest and most important investment and financing platform in Liangshan, or (2) the state-owned enterprises and assets consolidation according to the plan announced by Liangshan Committee of the Communist Party of China and the Liangshan prefectural government in June 2018 is not successfully implemented or (3) there is a downgrade in our internal credit assessment on Liangshan.

We could consider upgrading LDHG's rating if there is an upgrade in our internal credit assessment on Liangshan.

Any rating action on LDHG's rating would result in a similar rating action on the USD bonds.

Full List of Issuance Ratings

USD300 million 7.0% senior unsecured bonds due 2022 affirmed at 'BBB-'

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, 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 LDHG's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, 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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