

CCXAP assigns first-time long-term credit rating of BBB_g- to Xuancheng High-tech Investment Development Group Co., Ltd., with stable outlook.

Hong Kong, 24 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Xuancheng High-tech Investment Development Group Co., Ltd. (“XCHT” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of XCHT reflects the Management Committee of Xuancheng High-tech Industrial Development Zone’s (“Xuancheng HIDZ Management Committee”) (1) relatively strong capacity to provide support based on our assessment; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Xuancheng High-tech Industrial Development Zone (“Xuancheng HIDZ”)’s status as the provincial high-tech economic zone in Xuancheng City with rapid economic development and good industrial output, which provides a good operation environment for the Company.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) strategic role as the most important local infrastructure investment and financing company (“LIIFC”) in Xuancheng HIDZ; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) rapidly increasing debt level driven by ongoing investments; and (3) medium contingent liabilities risk.

Corporate Profile

Established in 2019, XCHT is the most important LIIFC in Xuancheng HIDZ, which plays an extremely important role to promote the development of local high-tech industries. XCHT is mainly responsible for the infrastructure construction in Xuancheng HIDZ. The Company also participates in different commercial activities, such as commodity trading, industrial parks construction and operation, property leasing, as well as green engineering. As of 31 December 2022, XCHT was wholly owned and controlled by the Management Committee of Xuancheng HIDZ, a government unit delegated by the Xuanzhou District Government.

Rating Rationale

Credit Strengths

Strategic role as the most important LIIFC in Xuancheng HIDZ. As the sole LIIFC of the Management Committee of Xuanzhou HIDZ, XCHT plays a dominant role in the development, construction, and operation of Xuancheng HIDZ. Delegated by the local government, the Company is responsible for the infrastructure construction in Xuancheng HIDZ including municipal utility projects. In addition, the Company also engages in property development business including factories, office buildings, talent apartments in Xuancheng HIDZ, which help provide a good environment for attracting investment to settle in Xuancheng HIDZ.

Good track record of receiving government support. The Company has a good track record of receiving support from the local government in the form of project payments, capital contributions, cash and asset injections, and fiscal subsidies to support its investments and operation of its businesses. In light of XCHT's strategic role in promoting the local development of Xuancheng HIDZ, we expect the Company to receive support from the local government when necessary.

Credit Challenges

Increasing exposure to commercial activities. XCHT participates in different commercial activities mainly including commodity trading, industrial parks construction and operation, property leasing, as well as green engineering. Based on our assessment, XCHT's exposure to commercial activities is medium with the assets of commercial activities accounting for less than 30% of total assets. With the promotion of self-operated projects, the Company's exposure to these projects is expected to increase.

Rapidly increasing debt level driven by ongoing investments. From 2020 to 2023Q1, XCHT's total debt increased to RMB4.6 billion from RMB1.9 billion leading the total capitalization ratio to increase to 45.9% from 32.8%. The increasing debt which is driven by investment in infrastructure construction and self-operated projects is aligned with the fast development of Xuancheng HIDZ.

Medium contingent liabilities risk from external guarantees to local state-owned enterprises. The Company bears moderate contingent risk resulting from its external guarantees. The external guarantees were mainly provided to the state-owned enterprises ("SOEs") in Xuancheng City and Xuanzhou District. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

Rating Outlook

The stable outlook on XCHT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the high-tech industrial development of Xuancheng City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's



willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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