

Credit Opinion

1 November 2023

Ratings

Senior Unsecured Debt Rating	A _g -
Long-Term Credit Rating	A _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Wuxi Gaofa Investment & Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of A_g- to Wuxi Gaofa Investment & Development Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Wuxi Gaofa Investment & Development Group Co., Ltd. (“WXGF” or the “Company”) reflects (1) Xinwu District Government’s very strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Xinwu District Government’s capacity to provide support reflects Xinwu District’s good economic fundamentals and fiscal profile. Its gross regional production (“GRP”) exceeds RMB240 billion, ranking second among districts in Wuxi City. Wuxi High-Tech Zone is also one of the top 20 high-tech zones in China.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in infrastructure construction and industrial park operations in Xinwu District; (2) solid track record of receiving government payments; and (3) good access to diversified financing channels.

However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities; (2) moderate debt management with an increasing debt burden; and (3) medium level of contingent risks.

The stable outlook on WXGF’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important position in the development of Xinwu District over the next 12-18 months.

Rating Drivers

- Essential role in infrastructure construction and park operations in Xinwu District
- Medium risk exposure to commercial activities
- Solid track record of receiving government payments
- Moderate debt management with an increasing debt burden
- Good access to diversified financing channels
- Medium level of contingent risks

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xinwu District Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as reduced exposure to high-risk commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinwu District Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance, significantly increased exposure to risky commercial activities or increased contingent risks from external guarantees.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	50.6	51.4	64.5	67.5
Total Equity (RMB billion)	20.0	20.7	22.2	20.7
Total Revenue (RMB billion)	2.6	2.8	3.4	0.8
Total Debt/Total Capital (%)	55.6	55.8	61.9	62.9

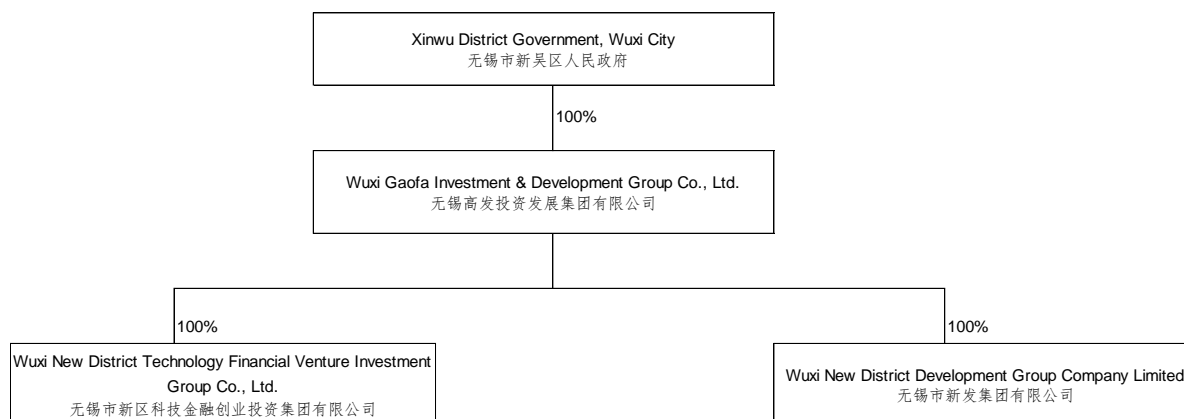
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

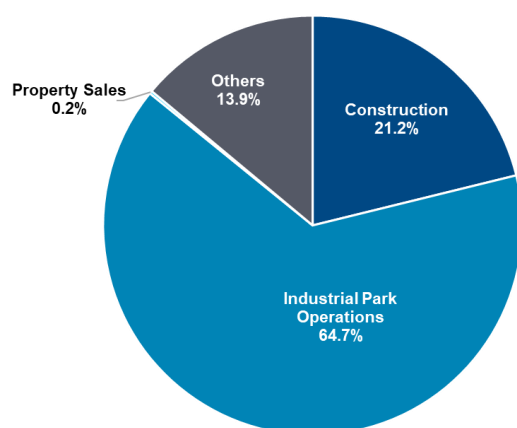
Founded in 2018, WXGF is the most important entity for industrial park operations and local infrastructure investment construction in Wuxi High-tech Zone (Xinwu District). As of 31 March 2022, it was directly and wholly owned by the Xinwu District Government. In 2022, the government transferred all holding shares of Wuxi New District Technology Financial Venture Investment Group Co., Ltd. ("WXVI") and Wuxi New District Development Group Company Limited ("WXND") to the Company, making it the largest entity for industrial park operations and local infrastructure investment construction by total assets in Xinwu District. WXGF plays an essential role in park operations, infrastructure construction and equity investment in Xinwu District. It also engages in engineering construction, property development, hotel operations, logistics and self-operated projects.

Exhibit 1. Shareholding chart as of 31 March 2023



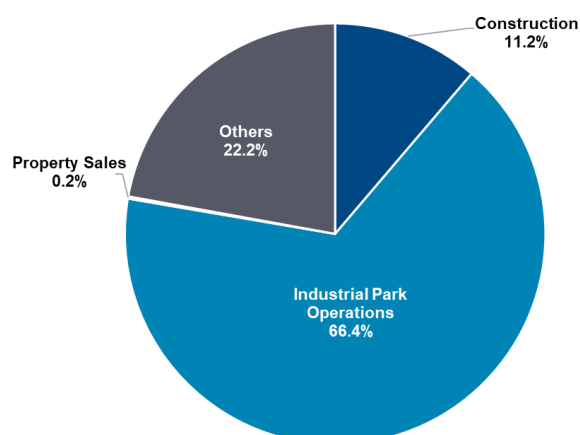
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Xinwu District Government has very strong capacity to provide support to the Company, given its good economic fundamentals and fiscal profile. Xinwu District's GRP ranks second and its general budgetary revenue ranks top among districts in Wuxi City. Wuxi High-Tech Zone is also one of the top 20 high-tech zones in China.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional products ("GRP"), after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's pillar industries include Internet of Things, integrated circuits, biomedicine, software, and new energy industry. Wuxi's GRP ranks 3rd among 13 prefecture-level cities in Jiangsu Province for more than 8 consecutive years. In 2022, it recorded a GRP of RMB1.5 trillion with a YoY growth rate of 3.0%. Wuxi's financial position is strong. From

2020 to 2022, its general budgetary revenue exceeded RMB100 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of above 80%. As of 31 December 2022, the local government's outstanding debt was RMB187.4 billion, accounting for 12.6% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Wuxi City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,237.0	1,400.3	1,485.1
GRP Growth (%)	3.7	8.8	3.0
General Budgetary Revenue (RMB billion)	107.6	120.1	113.3
General Budgetary Expenditure (RMB billion)	121.5	135.8	136.6
Local Government Debt (RMB billion)	142.1	160.8	187.4

Source: Statistics Bureau of Wuxi City, CCXAP research

Xinwu District and Wuxi High-tech Zone share the scope of government administration and management. Wuxi High-tech Zone is a national high-tech zone approved by the State Council in November 1992. It mainly lays out strategic emerging industries such as the Internet of Things, integrated circuits, biomedicine, big data, and cloud computing. Xinwu District has attracted many large corporations to settle in, forming multi-industrial clusters. There are 33 listed companies in Xinwu District, including 10 companies listed on the Science and Technology Innovation Board. Xinwu District also has an excellent geographical location and transportation system, supporting the growth of economic activities in Xinwu District. In the past three years, the GRP of Xinwu District has ranked 2nd in Wuxi City. In 2022, the GRP of Xinwu District was RMB 243.1 billion. Its per capita GRP was RMB 335,100, ranking first in Wuxi City. In addition, Xinwu District Government's fiscal strength is good. From 2020 to 2022, its general budgetary revenue was above RMB20 billion, and the average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) was more than 100%. As of 31 December 2022, the local government's outstanding debt was RMB31.1 billion, accounting for 12.8% of the GRP.

Exhibit 5. Key economic and fiscal indicators of Xinwu District

	2020FY	2021FY	2022FY
GRP (RMB billion)	193.0	227.1	243.1
GRP Growth (%)	5.1	11.0	3.4
General Budgetary Revenue (RMB billion)	21.6	24.3	24.2
General Budgetary Expenditure (RMB billion)	14.9	17.5	19.4
Local Government Debt (RMB billion)	24.2	27.3	31.1

Source: Statistics Bureau of Xinwu District, CCXAP research

Government's Willingness to Provide Support

Essential role in infrastructure construction and park operations in Xinwu District

WXGF plays an important role in the development of Xinwu District, given its leading role in the operation of industrial parks, construction of infrastructure and provision of public services. Its subsidiary, WXVI, is the sole wholly state-owned venture capital enterprise of Xinwu District Government, responsible for supporting the development of technological innovation enterprises and attracting target companies to settle in Xinwu District. WXGF is the largest entity for industrial park operations and local infrastructure investment construction by total assets in Xinwu District, and is responsible for all industrial parks except Taikang Park.

WXGF provides sewage treatment, bus, and power substation services in Xinwu District. As of 31 March 2023,

the Company has 3 sewage treatment plants with a designed treatment capacity of 665 thousand tons per day. The Company receives subsidies from the Wuxi High-Tech Zone Management Committee as compensation for sewage treatment, as well as routine operation and maintenance of pipe networks and pumping stations. With the increase in sewage treatment capacity, the Company's sewage treatment revenue has shown an increasing trend in recent years. As of the end of March 2023, the Company has 2 projects under construction to improve the treatment capacity, with a total investment of RMB365 million and an uninvested amount of RMB43 million. As of 31 March 2023, the Company operated 45 bus routes with a fleet of 365 buses. Considering its public nature, the bus business is relatively stable, and the Company receives subsidies from the government, such as operating mileage subsidies, oil subsidies and travel subsidies. The Company provides voltage conversion services for enterprises settled in the Singapore Park, and is responsible for the construction, operation and maintenance of the power network. In recent years, the revenue from power transformation has stably increased.

WXGF is an important urban construction entity in Xinwu District. It is responsible for the construction of important infrastructure and public facilities in Xinwu District mainly under agency construction model, such as municipalities, roads, sewage networks, and greening works. As of the end of March 2023, the Company's entrusted construction projects under construction had a total investment of RMB730 million and an uninvested amount of RMB210 million.

Medium risk exposure to commercial activities

WXGF has medium risk exposure to commercial activities such as property development, property leasing, engineering construction, self-operated projects, and financial investments, based on our assessment of its assets. These activities are associated with the Company's core business of industrial park development, and the Company has a good operating track record in some of these activities.

Property development business mainly involves commercial housing and office buildings in Xinwu District. The Company mainly realized returns through selling or leasing, which are closely related to the volatilities of regional industrial investment. In the past three years, with the increase in leasable assets, occupancy rates and rental levels, WXGF's revenue from property leasing had increased steadily. The Company's stable rental income is conducive to reducing the risks of the property development business. In 2022, the Company's rental income was around RMB562 million, which was able to fully cover its interest expenses for the year. We believe its rental income is recurring and stable, with a high occupancy rate of over 80% in the past few years. As of 31 March 2023, all completed residential housing projects have been sold out and realized profit. At the same time, the Company had 2 key projects under construction and a key proposed project, with a total investment of RMB6.5 billion and an uninvested amount of RMB2.6 billion. During the downturn of the domestic real estate market, the development of the Company's business may be under capital expenditure pressure and face certain uncertainties.

WXGF has large exposure to financial investment and most of them are in the early stage, so the investment risk is relatively high. However, some investments are policy-driven and have a track record of profitability. As an important investment enterprise in Wuxi District, WXGF mainly invests in strategic industries that align with the industrial development of Xinwu District, and holds 83.3% shares of the New Dynamic Fund, which is an industry guidance fund aimed at promoting the development of local high-tech industries in Xinwu District, and to attract investments into its industrial parks. As of the end of March 2023, the New Dynamic Fund has invested in a total of 35 projects through direct investment and the establishment of SPVs in cooperation with well-known investment institutions, most of which have signed guarantee agreements, promising minimum returns ranging from 7% to 9%. As of the end of March 2023, most of the projects have not yet reached the exit period, but the

New Dynamic Fund has just disengaged from 3 projects through capital reduction or equity transfer, realizing an income of RMB56 million. WXVI, the subsidiary of the Company, also engages in equity participation in financial institutions, industrial direct investment and participates as a limited partner or general partner in different industrial development funds. As of 31 March 2023, WXVI's portfolio of industrial direct investment was around RMB133 million, and the annual rate of return on exiting industrial direct investments was around 15.6%. In 2022, the Company's investment income was around RMB164 million.

In addition, the Company also has self-operated projects with a total investment of around RMB4.2 billion, including a Cultural Arts Center. In the future, the art center may need to rely on ticket income and rental from commercial development projects to balance the initial investment, bringing more uncertainties to the Company. In 2022, the Company started the engineering construction business and generated a supplementary income of around RMB404 million. As of 31 March 2023, all projects undertaken were within Wuxi City and most were related to the construction of industrial parks.

Solid track record of receiving government payments

As the most important entity for industrial park operations and local infrastructure investment construction in Xinwu District, WXGF has a good track record of receiving government support, such as obtaining special funds for project construction, obtaining operating subsidies and capital injections. In 2022, the local government injected all the shares of WXVI and WXND into the Company, making it the largest entity for industrial park operations and local infrastructure investment construction in Xinwu District by total assets.

The Company and its subsidiaries have continued to receive government payments in form of capital injections, subsidies, and project payments during the past three years. For example, the Company received a capital injection of RMB250 million in the first quarter of 2023. From 2020 to 2022, the Company received a total of around RMB782 million in subsidies. In addition, the Company is expected to receive project payments from the government as large account receivables remain, but the progress is slow. For entrusted infrastructure construction projects, the Company is no longer responsible for fund raising from 2019, and the Wuxi High-Tech Zone Management Committee pays the Company a markup as a management fee, which is generally 1.5%. In the future, the Company will undertake infrastructure construction projects planned by the government and receive management fees. Overall, we expect WXGF to receive ongoing support from the government given its strategic position in the development of Xinwu District.

Moderate debt management with an increasing debt burden

WXGF's debt had grown rapidly over the past three years mainly due to investment in the construction and operation of industrial parks and commercial activities. As of 31 March 2023, the Company's total debt increased to RMB37.7 billion from RMB25.0 billion at end-2020. At the same time, its capitalization ratio, calculated as a ratio of total debt to total capital, also grew to 62.9% from 55.6% at end-2020. The ratio of cash to short-term debt was around 0.4x as of 31 March 2023. The Company had large investment plans of around RMB8.5 billion in the future, which will be mainly used for the construction of industrial parks, sewage treatment, and self-operated projects. As project construction gradually progresses, it may rely on external financing to meet its funding gap. We expect the Company's debt leverage to remain at a relatively high level in the next 12 to 18 months.

Good access to diversified financing channels

Both Wuxi City and Xinwu District are well-developed cities in China, with strong economic strengths and good

financial environment. WXGF has good access to bank borrowing and debt capital market, which can partially relieve the pressure on debt repayment and capital expenditure. It maintains good relationships with joint-stock commercial banks and large state-owned commercial banks. As of the end of March 2023, the Company had a total credit facility of RMB64.3 billion from banks, with an unused amount of RMB29.5 billion. The Company also has good access to the domestic debt market to meet its financing needs. For example, the Company issued RMB1.4 billion corporate bonds in May 2023 with a coupon rate of 3.53% and issued RMB1.12 MTNs in July 2023 with coupon rate of 3.24%. As of end of March 2023, the Company's non-standard financing exposure accounted for approximately 14% of total debt.

Medium level of contingent risks

WXGF's credit profile is undermined by a relatively large number of external guarantees, which could potentially increase its repayment obligations. As of 31 December 2022, the total amount of external guarantees was approximately RMB5.7 billion, representing 25.7% of net assets. The objects of the guarantees are all state-owned enterprises in Xinwu District, and all guarantees have counter-guarantee measures. No guarantee is asked for compensation so far. However, if a credit event occurs in Xinwu District, it may trigger a large-scale cross-default effect.

ESG Considerations

WXGF faces environmental risks because it has undertaken construction projects such as infrastructure construction and industrial parks. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company is also exposed to social risks due to its role as a public services provider. Demographic changes, public awareness and social priorities shape the government's target for WXGF or affect the government's propensity to support the Company.

WXGF's governance considerations are also material as the Company is subject to oversight by the Xinwu District Government and must meet several reporting requirements, reflecting its role as a public services provider and status as a government-owned entity.

Structural Considerations

WXGF's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in the infrastructure construction and industrial park operations of Xinwu District, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

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