

Credit Opinion

19 January 2024

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

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Jiangsu Yanxi Newcity Investment and Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiangsu Yanxi Newcity Investment and Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangsu Yanxi Newcity Investment and Development Co., Ltd. (“YXNC” or the “Company”) reflects Yandu District Government’s strong capacity to provide support, and the local government’s very 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 that Yandu District’s economic and fiscal strengths with steady growth ranked upper middle among all districts and counties in Yancheng City for years.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in the development of Xiaomagou Life Group Project in Yandu District; (2) sufficient project reserves along with the development of Xiaomagou Life Group Project; and (3) good track of receiving government support.

However, the rating is constrained by the Company’s (1) increasing debt level to support investment in construction projects; and (2) moderate access to financing channels with limited financial flexibility.

The stable outlook on YXNC’s rating reflects our expectation that Yandu District Government’s capacity to provide support will remain stable, and the Company will maintain its important position in Yandu District over the next 12-18 months.

Rating Drivers

- Important role in the development of Xiaomagou Life Group Project with sufficient project reserves
- Low exposure to commercial activities
- Good track record of receiving government support
- Increasing debt level to support investment in construction projects
- Moderate access to funding channels with limited financial flexibility

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved policy importance or diversified financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 materially increased exposure to risky commercial activities or a deterioration in its financing ability.

Key Indicators

| | 2020FY | 2021FY | 2022FY | 2023Q3 |
|------------------------------|--------|--------|--------|--------|
| Total Asset (RMB billion) | 13.0 | 14.7 | 16.5 | 18.8 |
| Total Equity (RMB billion) | 6.4 | 6.7 | 6.8 | 6.9 |
| Total Revenue (RMB million) | 603.3 | 721.9 | 763.2 | 649.9 |
| Total Debt/Total Capital (%) | 23.7 | 32.6 | 45.6 | 54.2 |

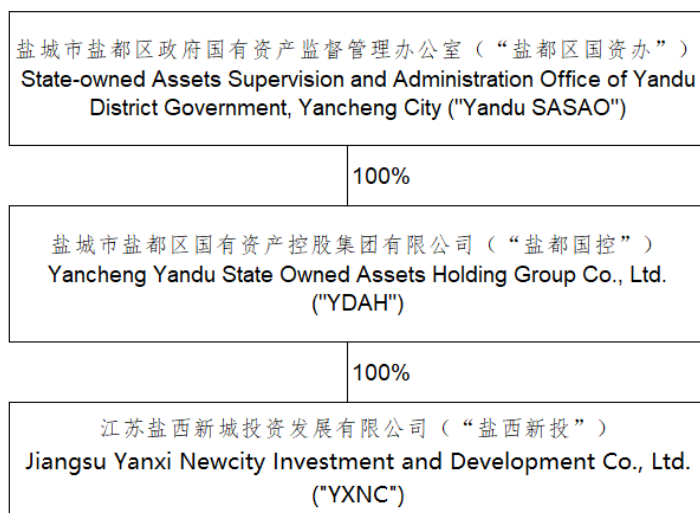
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

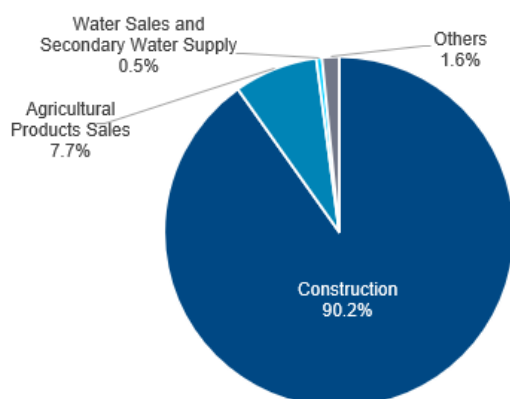
Corporate Profile

Established in 2007, YXNC, formerly known as Yancheng Yuda Water Conservancy Construction Service Co., Ltd., is one of the essential local infrastructure investment and financing companies ("LIIFCs") in Yandu District, Yancheng City, mainly responsible for the construction and development of Panhuang Street, Yandu District. It is the key entity for the construction and development of Xiaomagou Group in Panhuang Street, one of six key urban construction projects in Yancheng City, that mainly undertakes infrastructure construction, land consolidation and resettlement housing construction. The Company also has developed commercial activities such as water sales, secondary water supply, agricultural products sales, property management and rental.

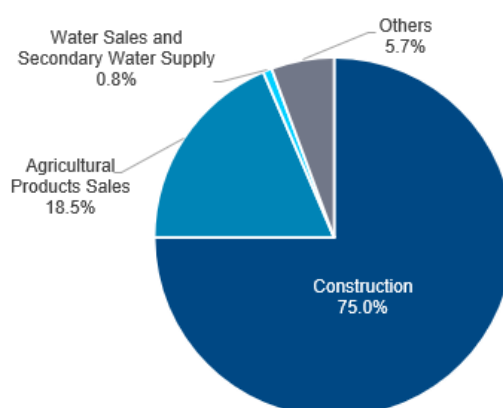
As of 30 September 2023, the State-owned Assets Supervision and Administration Office of Yandu District Government, Yancheng City ("Yandu SASAO") was the ultimate controller of the Company, holding 100% stakes of the Company through Yancheng Yandu State-owned Assets Holding Group Co., Ltd. ("YDAH").

Exhibit 1. Shareholding chart as of 30 September 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 Yandu District Government has a strong capacity to provide support, given its economic and fiscal strengths with steady growth ranking upper middle level among all districts and counties in Yancheng City for years.

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 product ("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. The GRP of Jiangsu Province in the first three quarters of 2023 was RMB9.3 trillion with a YoY increase of 5.8%.

Yancheng City is a prefecture-level city in Jiangsu Province with a good economic base. Its main industries include auto parts, machinery, textiles and chemicals. Yancheng City is undergoing economic transition and developing emerging industries such as high-tech electronics manufacturing, big data, new energy and

intelligent manufacturing, which will help support sustainable economic growth in the long term. In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8th among 13 prefecture-level cities in Jiangsu Province. At the same time, Yancheng Municipal Government reported general budget revenue of RMB45.3 billion, of which tax revenue accounted for about 65.6%. However, its fiscal balance ratio (calculated as general budget revenue over general budget expenditure) was at a moderate level, with an average ratio of around 41.5% over the past three years. At the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion, accounting for around 21.7% of GRP. Yancheng's GRP in the first three quarters of 2023 was RMB530.2 billion, with a growth rate of 6.0% compared to the same period in 2022.

Exhibit 4. Key economic and fiscal indicators of Yancheng City

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 595.3 | 661.7 | 708.0 |
| GRP Growth (%) | 3.5 | 7.7 | 4.6 |
| General Budgetary Revenue (RMB billion) | 40.0 | 45.1 | 45.3 |
| General Budgetary Expenditure (RMB billion) | 97.4 | 105.3 | 111.8 |
| Local Government Debt (RMB billion) | 137.0 | 147.3 | 153.5 |

Source: Yancheng Municipal Government, CCXAP research

Located in the southwest of Yancheng City, Yandu District is one of the main urban areas of Yancheng City with a total area of 1,016.2 square kilometers. There are a national Taiwan Farmers Pioneer Park, a provincial-level holiday resort and a national high-tech industrial development zone under the jurisdiction of Yandu District. Yandu District focuses on three leading industries, which are electronic information, high-end equipment and new energy industry, and also develops the modern services industry. Technology innovation and industrial transformation and upgrading drive the economic strength of Yandu District to continue increasing. From 2020 to 2022, its GRP has increased from RMB60.7 billion to RMB71.5 billion, ranking third among all districts and counties in Yancheng City for three years. In the first three quarters of 2023, its GRP amounted to RMB51.3 billion with a YoY increase of 4.1%. From 2020 to 2022, Yandu District Government's general budgetary revenue has increased from RMB3.8 billion to RMB4.3 billion. It also has a good fiscal stability with tax revenue accounted for an average of over 75.0% of general budgetary revenue for the past three years. However, Yandu District's fiscal self-sufficiency ability was moderate with an average fiscal balance ratio of 50.1% over the past three years. At the end of 2022, the local government's outstanding debt was RMB9.0 billion, accounting for 12.5% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Yandu District

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 60.1 | 68.3 | 71.5 |
| GRP Growth (%) | 2.4 | 7.7 | 2.6 |
| General Budgetary Revenue (RMB billion) | 3.8 | 4.3 | 4.3 |
| General Budgetary Expenditure (RMB billion) | 7.5 | 7.9 | 9.1 |
| Local Government Debt (RMB billion) | 8.7 | 8.5 | 8.9 |

Source: Yandu District Government, CCXAP research

Government's Willingness to Provide Support Clear and important position in Yandu District

There are three major LIIFCs directly owned by Yandu District Government and each of these companies has a clear functional position under the local government's planning. YDAH, YXNC's parent, is an important entity

for infrastructure construction and operation of state-owned assets in Yandu District, including the investment and construction of Yancheng western area, Yandu sub-center and provincial-level industrial parks, foreign investment, financing guarantees as well as operation and management of state-owned assets and equity authorized by the local government. Yancheng Urbanization Construction and Investment Group Co., Ltd. mainly undertakes the investment and construction of key urbanization projects in Yandu District while Yancheng Shengzhou Investment Holding Group Co., Ltd. is responsible for the infrastructure construction in Yandu Street.

YXNC mainly undertakes the development task in Panhuang Street, Yandu District. It is the main entity responsible for the Xiaomagou Life Group Project located in Panhuang Street. Xiaomagou Life Group Project is one of the “Six City Group Projects” under the Yancheng Municipal Government’s planning for urban development. With a total planned area of around 16 square kilometers, Xiaomagou Life Group Project is an important part of the large urban area of Yancheng City, aiming to become an ecological and livable city and focusing on developing modern services, scientific and technological innovation, health care, sports, leisure industries. At present, there are several landmarks have been completed including Yanlong Sport Park and Xiaomagou Landscape Green Corridor. The success of Xiaomagou Life Group Project will benefit social living as well as the economic development of Yandu District and Yancheng City.

Important role in Xiaomagou Life Group Project with sufficient project reserves

YXNC is mainly engaged in infrastructure construction and land consolidation in Yandu District through the agent construction model. For the Xiaomagou Life Group Project, According to the “*Notice on the Adjustment Plan for the Investment and Construction Management Mechanism of Xiaomagou Life Group*” (《关于小马沟生活组团投资建设管理机制调整方案的通知》) issued in November 2021, Yandu District Government is responsible for the construction and management of the Xiaomagou Life Group Project while Yancheng Municipal Finance arranges the funds for land demolition, land development and infrastructure construction within the Xiaomagou Group, and Yancheng Municipal Land Reserves Center collects and reserves the land within the Xiaomagou Group. All agent construction projects within the Xiaomagou Group are included in the annual investment plan of the Yancheng Municipal Government. The funds and financial expenses invested in the early stage shall be paid to the Company within three years after the final audit.

Under the agent construction model, YXNC signs the agent construction contract with the entrusting party (mainly the state-owned enterprises in Yandu District), raises the funds itself and charges payment equal to the investment cost plus a certain markup. As the main developer for Xiaomagou Life Group Project, as of 30 September 2023, the Company has completed key agent infrastructure construction projects with a total investment of RMB1.7 billion, including Yanlong Sport Park and Xiaomagou Landscape Green Corridor. At the same time, it has completed land consolidation projects with total investment of RMB4.3 billion. As of the end of September 2023, the Company’s key agent infrastructure projects under construction included school, agricultural park and roads, with a total planned investment of RMB3.6 billion and an outstanding amount of RMB1.1 billion. Meanwhile, the Company has one proposed project with planned investment of RMB800.0 million. As for the land consolidation projects, the outstanding investment for the Company’s land consolidation project under construction amounted to RMB2.1 billion and the total planned investment of the proposed project was RMB1.3 billion as of 30 September 2023.

Additionally, the Company is also responsible for the development and sales of resettlement housing within the scope of the Xiaomagou Life Group Project. The Company invests in the construction of resettlement housing with self-raised funds, and sells them to resettlement households after completion. As of the end of September 2023, the Company’s resettlement housing project under construction was the resettlement housing on Dongjin

Road (Baoxin Garden) with an outstanding investment of around RMB720 million. In addition, the Company also purchases commercial housing and sells to the resettlement households to fulfill the need for demolition and resettlement. As of the end of September 2023, the book value of purchased resettlement housing amount to around RMB585 million.

Exhibit 6. Key Projects under Construction and Planning as of 30 September 2023

| Project type | No. of projects | Budgeted amount (RMB billion) | Invested amount (RMB billion) | Outstanding amount (RMB billion) |
|-----------------------------------|-----------------|----------------------------------|----------------------------------|-------------------------------------|
| Project under construction | | | | |
| Infrastructure construction | 3 | 3.6 | 2.5 | 1.1 |
| Land consolidation | 26 | 4.6 | 2.4 | 2.2 |
| Resettlement housing | 1 | 1.6 | 0.9 | 0.7 |
| Project under planning | | | | |
| Infrastructure construction | 1 | 0.8 | - | 0.8 |
| Land consolidation | 3 | 1.3 | - | 1.3 |
| Total | 34 | 11.9 | 5.8 | 6.1 |

Source: Company information, CCXAP Research

Overall, the Company's project reserves are relatively sufficient, which has positive implications for the Company to maintain its importance in construction within Yandu District.

Low exposure to commercial activities

YXNC is also engaged in commercial activities such as water sales, secondary water supply, agricultural products sales, property management and rental services. Based on our assessment, the Company had low exposure to commercial activities, which accounted for less than 15% of its total assets. In 2022, the proportion of revenue from commercial activities did not exceed 15% of total revenue, and the contribution to operating profitability was limited.

Carried out by its subsidiary, the Company's water business mainly includes water sales and secondary water supply to residents in Panhuang Street. The business has remained profitable in the past three years, and the profit margin is high of more than 35%. The revenue of sale of agricultural products that mainly involve strawberries increased steadily in recent years, which rose to RMB61.0 million during the first three quarters of 2023, accounting for 9.4% of the total revenue, from RMB43.0 million in 2021. At the same time, its gross profit margin has remained at a stable level of around 40%. YXNC's rental assets mainly involve self-owned buildings including Golden Air Wealth Building and Zhaoquan Business Center. The Company also has property management business, whose business scope is mainly the Company's investment property assets and public construction projects in Yandu District. While the management fees are all priced in a market-oriented way, and the revenue as well as profit have fluctuated greatly in the past.

Good track record of receiving government support

YXNC has a good track record in receiving government support in terms of asset injections and financial subsidies. From 2020 to 2023Q3, the Company has received government subsidies totaling RMB349.0 million. In 2020, the local government transferred state-owned equity such as Magou Village and Town Construction Comprehensive Development Co., Ltd. into the Company to increase its capital reserve by RMB44.3 million. In addition, the Company has a track of obtaining the repayments for the agent construction business. From 2020

to 2023Q3, the total amount of repayments was around RMB3.2 billion. It is expected that the Company will continue to receive government project repayments considering its large agent projects under construction and planning. As the Company has signed agency agreements with related parties, the Yancheng Municipal Finance would allocate the funds to the Company within three years after the audit, but there is a certain time lag. We believe that given YXNC's important position in Yandu District, the local government will continue to provide support to the Company in times of need over the next 12 to 18 months.

Increasing debt level to support investment in construction projects

YXNC's debt burden increased fast mainly due to large investments in entrusted construction projects. As of 30 September 2023, the Company's total debt grew to RMB8.2 billion from RMB2.0 billion in 2020. Meanwhile, its total capitalization ratio, as measured by total debt to total capital, has also shown a rapid increase trend, increasing to 54.2% from 23.7% during the same period. Although the growth rate of total debt is high, the ongoing increase in the total debt is mainly driven by the investment in construction projects, which are beneficial to local development. At the end of September 2023, the Company has a certain short-term debt burden with the short-term debt accounting for 40.4% of total debt. Furthermore, its cash to short-term debt ratio was 0.6x at the same time.

In addition, YXNC faces certain capital expenditure pressure for the relatively large outstanding investment amount of construction projects. As of 30 September 2023, the Company was required to invest more than RMB6.0 billion in the construction of infrastructure construction as well as land consolidation. Considering the Company's ongoing investment needs and lagged payments from the local government, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

Moderate access to funding channels with limited financial flexibility

YXNC has moderate access to funding and relies highly on indirect financing and secured debt with a limited track record in accessing the domestic debt market. As of 30 September 2023, the Company's bank loans accounted for more than 60% of the total debt and direct financing accounted for around 10%. It has moderate exposure to non-standard financing products which are mainly financial leasing with relatively high costs of around 7.6%. As of 30 September 2023, the Company's non-standard financing was RMB1.2 billion, accounting for around 15% of the total debt. In addition, its relatively weak asset liquidity will limit its financial flexibility. As of 30 September 2023, its account receivables, other receivables and inventories accounted for a relatively high proportion, totaling around 80% of total assets. The Company's inventories were mainly the development cost of its land consolidation and affordable housing construction business; the other accounts receivables were mainly related to the state-owned enterprises in Yandu District.

Nevertheless, the Company's good relationship with large domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk. It maintains long-term relationships with large domestic banks, such as the Agricultural Bank of China and Bank of Jiangsu. As of 30 September 2023, the Company had total bank facilities of RMB7.1 billion, with the available portion being RMB1.1 billion. In addition, in June 2023, the Company diversified the financing channel by issuing a tranche of Asset-Backed Security with the underlying assets of the East Jin Road Housing Project.

ESG Considerations

YXNC faces environmental risks because it has undertaken construction business. 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.

YXNC bears social risks as it implements public policy initiatives by building public infrastructure in Yandu District. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

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

Structural Consideration

YXNC's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in Yandu 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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