

Credit Opinion

28 June 2024

| Ratings | |
|----------------------------|------------------|
| Category | Corporate |
| Domicile | China |
| Rating Type | Solicited Rating |
| Long-Term Credit Rating | A _g - |
| Outlook | Stable |

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Yuyao Jinrui Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Yuyao Jinrui Investment Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Yuyao Jinrui Investment Group Co., Ltd, (“YJIG” or the “Company”) reflects (1) Yuyao City 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 Yuyao City Government’s capacity to provide support reflects Yuyao City’s relatively good comprehensive strength, fast economic growth and good fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in industrial development and public projects in Yuyao City; (2) high sustainability of infrastructure construction and land consolidation projects; (3) good access to fundings and sufficient standby liquidity; and (4) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) high debt leverage and moderate asset liquidity; and (2) moderate exposure to commercial business activities.

The stable outlook on YJIG’s rating reflects our expectation that Yuyao City Government’s capacity to provide support will remain stable, and the Company will maintain its vital position in Yuyao City.

Rating Drivers

- Strong position in industrial development and public projects in Yuyao City
- High sustainability of infrastructure construction and land consolidation projects
- Moderate exposure to commercial business activities
- High debt leverage and moderate asset liquidity
- Good access to fundings and sufficient standby liquidity
- Good track record of receiving government payments

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Yuyao City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improvement in asset quality or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Yuyao City 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 a reduction in importance of its policy role or a substantial reduction in government payments.

Key Indicators

| | 2022FY | 2023FY | 2024Q1 |
|------------------------------|--------|--------|--------|
| Total Asset (RMB billion) | 74.5 | 95.6 | 104.7 |
| Total Equity (RMB billion) | 28.8 | 40.0 | 40.2 |
| Total Revenue (RMB billion) | 3.6 | 2.5 | 0.4 |
| Total Debt/Total Capital (%) | 57.0 | 54.0 | 56.6 |

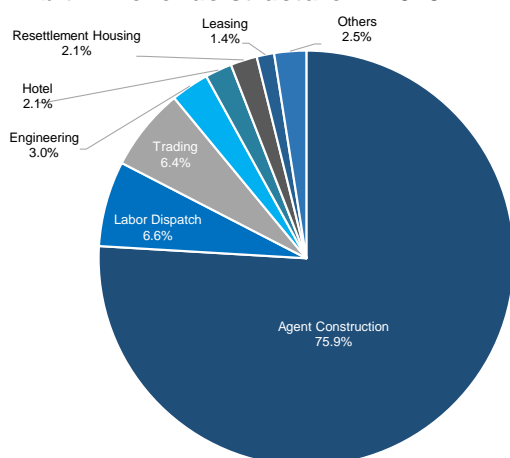
All ratios and figures are calculated using CCXAP's adjustments based on the pro forma financial statements after consolidation.

Source: Company data, CCXAP research

Corporate Profile

Established in 1993 as Yuyao Finance and Financial Development Company, the Company has changed its name and controlling shareholder, along with receiving equity injections of several significant subsidiaries in 2024. After the consolidation, the Company has become one of the most important local infrastructure investment and financing company ("LIIFC") in Yuyao City. Its business has diversified and includes public businesses such as infrastructure construction, land development and resettlement housing. In addition, the Company is also engaged in commercial businesses including industrial development and operation of cultural and tourism resources. As of 31 March 2024, YJIG was 100% owned and ultimately controlled by Yuyao City State-owned Asset Management Office ("Yuyao SAMO").

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Yuyao City Government has a very strong capacity to provide support, based on Yuyao City's relatively good comprehensive strength, ongoing economic growth and good fiscal metrics.

Located in the middle of China's southeast coastline, Ningbo City is the second largest city among the five centrally planned cities by gross regional product ("GRP") and the economic center in south part of Yangtze River Delta. Ningbo City owns one of the busiest ports in the world – Ningbo Zhoushan Port. It has consistently maintained the top position in global ranking for 15 consecutive years in terms of cargo throughput. Ningbo City has formed pillar industries including automotive industry, electrical machinery and equipment, chemical and textile industry. Besides, Ningbo Municipal Government also promotes new industries such as artificial intelligence and digital economy industry. Ningbo City has maintained good comprehensive strength. In 2023, it has achieved a GRP of RMB1,645.3 billion and the general budgetary revenue of RMB178.6 billion, both ranking the second among all cities under Zhejiang Province. The fiscal metrics were also good with a financial self-sufficiency ratio (tax/general budgetary revenue) of 82.0% and a fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 79.9% in 2023. The Ningbo Municipal Government's outstanding debt amounted to RMB324.9 billion in 2023, accounting for 19.7% of Ningbo City's GRP.

Exhibit 2. Key economic and fiscal indicators of Ningbo City

| | 2021FY | 2022FY | 2023FY |
|---|---------|---------|---------|
| GRP (RMB billion) | 1,459.5 | 1,570.4 | 1,645.3 |
| GRP Growth (%) | 8.2 | 3.5 | 5.5 |
| General Budgetary Revenue (RMB billion) | 172.3 | 168.0 | 178.6 |
| General Budgetary Expenditure (RMB billion) | 194.4 | 218.8 | 223.5 |
| Local Government Debt (RMB billion) | 254.9 | 288.6 | 324.9 |

Source: Statistics Bureau of Ningbo City, CCXAP research

Yuyao City is a county-level city under the administration of Ningbo City. It has relatively good comprehensive strength, ranking 13th among China's Top 100 Counties in 2023. It is a key production area of plastic and mold production. Yuyao City has developed traditional industries such as instrument, electronic, plastic, machinery

and metallurgy industry, and improved the industrial structure by developing emerging industries and High-tech industries. Yuyao City's economy is experiencing a recovery after pandemic and is showing signs of growth. Its GRP increased from RMB151.4 billion in 2022 to RMB157.1 billion in 2023, with GRP growth rate returned to 5.5% compared to 1.9% in 2022. Meanwhile, Yuyao City Government's fiscal strength also has recovered, with the general budgetary revenue increasing from RMB12.1 billion in 2022 to RMB13.3 billion in 2023. Furthermore, the fiscal performance of Yuyao continued to be strong, with financial self-sufficiency ratio (tax/general budgetary revenue) of 86.3% and fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 85.4% in 2023. The Yuyao City Government's outstanding debt amounted to RMB23.4 billion in 2023, accounting for 14.9% of Yuyao City's GRP.

Exhibit 3. Key economic and fiscal indicators of Yuyao City

| | 2021FY | 2022FY | 2023FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 144.2 | 151.4 | 157.1 |
| GRP Growth (%) | 9.1 | 1.9 | 5.5 |
| General Budgetary Revenue (RMB billion) | 13.0 | 12.1 | 13.3 |
| General Budgetary Expenditure (RMB billion) | 14.3 | 14.9 | 15.5 |
| Local Government Debt (RMB billion) | 15.4 | 19.5 | 23.4 |

Source: Statistics Bureau of Yuyao City, CCXAP research

Government's Willingness to Provide Support

Strong position in industrial development and public projects in Yuyao City

After the completion of consolidation in May 2024, the Company became one of the two major LIIFCs in Yuyao City that encompasses functions including infrastructure construction, land development and resettlement housing, industrial real estate development, park operation management, tourism investment and development, as well as guarantee and credit enhancement. YJIG is mainly responsible for the public projects in Yuyao Economic and Development Zone, Yuyao industrial park, High-speed railway station area, while Yuyao Shuncai Investment Holding Co., Ltd. is mainly responsible for providing comprehensive public service and conducting public policy projects in main urban area of Yuyao City. Considering the YJIG's dominant position in undertaking public policy projects and essential role in industrial development in Yuyao City, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of infrastructure construction and land consolidation projects

The Company has abundant reserves of ongoing and planned projects in infrastructure and land consolidation, covering north-western area, high-speed railway station area and Yuyao industrial park. Besides, the Company also owns cultural and tourism-related infrastructure facilities. However, these projects require significant investments and are subject to uncertainties related to the land market conditions and the government's policy planning. It is essential to closely pay attention to the subsequent land transfers and financing conditions.

Entrusted by the local government, YJIG undertakes agent construction under agency construction model through its subsidiaries. The Company raised fund by itself and receive a return based on the actual costs plus a certain markup after settlement, usually 15% to 20%. It has completed a number of agency construction projects, such as roads, railway station extension, and city upgrading projects in Yuyao City. From 2022 to 2023, the Company had 19 completed agent construction projects, with total invested amount of RMB4.0 billion and recognized revenue of RMB4.8 billion. As of 31 December 2023, the Company had invested RMB2.0 billion into

agent construction projects under construction, with an uninvested amount of RMB476.0 million, indicating certain capital expenditure pressure.

Serving as an important land developer in Yuyao City, the Company is responsible for land acquisition compensation, demolition, resettlement, land leveling, road paving, water supply, power supply, gas supply and other supporting work for Yuyao industrial park and Moushanhu area. After settlement, the Company will charge entrusted construction fees based on a certain percentage added to the land acquisition costs. From 2022 to 2023, the Company had 9 completed agent construction projects, with total invested amount of RMB95.5 million and recognized repayments of RMB127.8 million. Besides, as of 31 December 2023, the Company had 6 land development projects under construction, with total investment amount of RMB13.9 billion and uninvested amount of RMB2.2 billion. However, land development business is highly susceptible to government planning and regional land market conditions, with may exert uncertainty to the Company.

As a key force for providing resettlement housing for resettlement residents in industrial park area and Moushanhu area of Yuyao City, YJIG engages in the construction and development of resettlement housing through its subsidiaries. Upon completion of construction, the Company will sell the affordable houses to resettlement residents based on government-guided prices. As of 31 December 2023, it had 3 completed resettlement housing projects with total investment amount of RMB632.0 million and the total sold revenue of RMB695.0 million. However, the Company had no resettlement housing projects under construction or under planning as of end-2023, indicating low business sustainability and uncertain future.

The Company also participates in water supply business through its subsidiary, primarily focusing on residents and enterprises of Simen Town and Xiaocaoe Area, as well as facility installation and repair services. Over the past few years, the Company has continuously expanded its water treatment equipment and water supply pipelines, leading to a significant enhancement in water supply capacity. Its daily water supply capacity has reached to 80,000 tons. Nonetheless, this business's contribution to profitability is constrained by its relatively modest scale.

Moderate exposure to commercial business activities

YJIG has moderate business risks as the proportion of commercial business assets of its total assets is around 15%. It has participated in commercial businesses such as tourism investment and development, trading, and hotel operation.

YJIG's trading business mainly focuses on the trading of ethylene glycol and electrolytic copper, operating by its subsidiaries. Besides, given Yuyao City's status as China's largest plastic trading market, YJIG will increase its trading of plastics significantly in the future with the consolidation of Yuyao China Plastic City Logistics Co., Ltd. In 2023, trading business generated total revenue of RMB150.0 million. However, the profitability of the business is low as recorded a gross profit margin of 3.2%. Moreover, its trading business is subject to concentration risks due to its relatively high reliance on top 5 customers and supplier.

The Company is an important cultural and tourism resource operation platform in Yuyao City. It operates two national AAA scenic spots, namely Tianxia Yuyuan and Siming mountain Geological Park. Besides, the Company is also entrusted by the government to manage several scenic areas. Its revenue mainly comes from sales of ticket and rentals of venue. In 2023, the Company's revenue from this business has increased, but still with small scale. The Company also engages in hotel operation business, with the Siminghu Kaiyuan Mountain Villa Hotel serving as the primary source of hotel revenue. YJIG provides guest rooms, dining, conference, swimming pool, KTV, gym service for guests and achieving revenue of RMB48.6 million in 2023.

YJIG's labor dispatch business is conducted by its two subsidiaries, serving enterprises in Yuyao City. The Company provides service with customers through public bidding or direct client appointments. It deploys personnel to the designated locations to provide services and collects service fees upon completion. The price is determined by negotiation between consignor and the consignee, with high transparency. With strong competitiveness and excellent reputation in the regional market, the Company continuously and steadily obtain orders, achieving revenue of RMB154.7 million in 2023.

High debt leverage and moderate asset liquidity

YJIG has a high debt leverage because of ongoing fundings for the public policy projects, with a total capitalization ratio of 56.6% as of 31 March 2024. Besides, the Company has fast debt growth, with total debt increased from RMB37.7 billion at end-2022 to RMB52.3 billion as of 31 March 2024. Moreover, the debt structure needs to be improved since its short-term debt ratio was 35.0% at the end of March 2024, indicating high liquidity pressure. Positioned as key role of conducting public policy business in Yuyao City, the Company will continue to undertake agent construction and land consolidation projects in the region. Given the large capital expenditure needs from public projects, we expect the debt leverage of the Company to remain at high level in the next 12 to 18 months.

YJIG's asset liquidity is moderate, and its assets are mainly comprised of inventories and receivables. As of 31 March 2024, its inventories and receivables accounted for 73.3% out of total assets, mainly consisting of development costs from the public policy businesses and uncollected payments from government. In addition, as of the end of 2023, the Company had restricted assets totaled RMB10.9 billion, accounting for 11.4% of its total assets. These assets mainly consist of investment properties and fixed assets mortgaged due to loans.

Good access to fundings and sufficient standby liquidity

YJIG has sufficient stand-by liquidity and diversified funding channels. As of 31 December 2023, the Company's total credit facilities from banks amounted to around RMB65.6 billion, of which the unutilized portion was around RMB32.9 billion. They were mainly provided by diversified large domestic banks such as China Construction Bank and Industrial and Commercial Bank of China.

Furthermore, the Company has a proven track record of financing from both onshore and offshore debt markets. As of 31 December 2023, the Company and its subsidiaries had issued multiple tranches of commercial papers, medium term notes, and private bonds in the onshore market, with total outstanding amount of around RMB4.9 billion. YJIG also has certain amount of non-standard financing exposure, which accounted for around 15% of its total debts end-2023.

Good track record of receiving government payments

YJIG has regularly received support from the local government in the form of government subsidies and assets transfer. From 2022 to 2023, the Company received government subsidies for its public policy business, with total amount of RMB210.2 million. Furthermore, the government transferred equity of regional state-owned enterprises, including Yuyao High-speed Rail-Station Construction Investment Co., Ltd, Yuyao Industrial Park Industrial Development Group Co., Ltd, Yuyao Economic Development Zone Construction Investment and Development Co., Ltd and Yuyao China Plastic City Logistics Co., Ltd to the Company, increasing capital reserve by RMB8.0 billion from end-2022 to end-2024Q1 and strengthening company's regional importance significantly. Given its status as key role of conducting public policy business in Yuyao City, we believe that the local government will continue to provide support to the Company.

ESG Considerations

YJIG is exposed to environmental risks because it has undertaken infrastructure construction and utility projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

The Company is also exposed to social risks as a public services provider in Yuyao City. Demographic changes, public awareness and social priorities shape government's target for YJIG, or affect the government's propensity to support the Company.

YJIG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

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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