

Credit Opinion

19 July 2024

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

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Amy Chen +852-2860 7140

Assistant Credit Analyst

amy_chen@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Wuxi Gaofa Investment & Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Wuxi Gaofa Investment & Development Group Co., Ltd.'s long-term credit rating at A_g-, 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 very 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 RMB250 billion, ranking second among county-level cities in Wuxi City. Wuxi High-Tech Industrial Development Zone ("Wuxi HIDZ") also ranks among China's top 20 national-level high-tech industrial development zones.

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) increased 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
- Increased 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) 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 reduced exposure to high-risk commercial activities and improved debt management.

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 reduced policy significance or increased contingent risks from external guarantees.

Key Indicators

	2021FY	2022FY	2023FY
Total Assets (RMB billion)	51.4	64.5	83.9
Total Equity (RMB billion)	20.7	22.2	25.6
Total Revenue (RMB billion)	2.8	3.4	3.0
Total Debt/Total Capital (%)	55.8	61.9	66.9

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

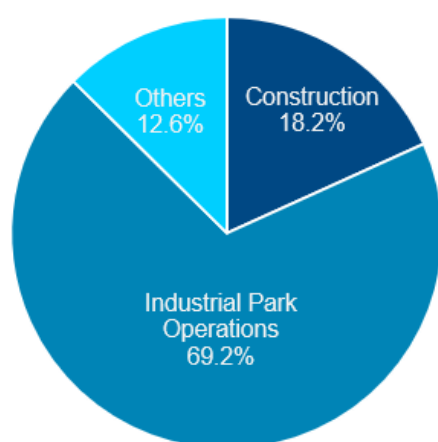
Source: Company data, CCXAP research

Corporate Profile

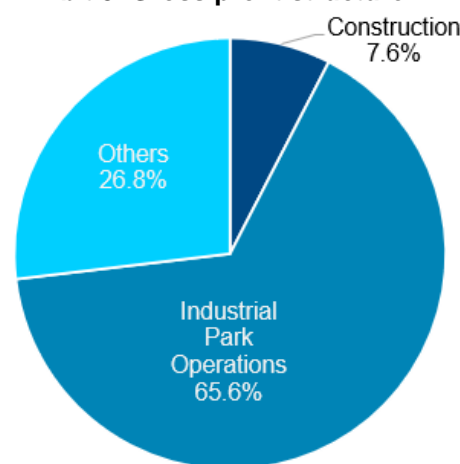
Founded in 2018, WXGF is the most important and key entity in Wuxi HIDZ (Xinwu District) for development and investment, state-owned asset management as well as state-owned capital management. In 2022, the government transferred all holding shares of Wuxi High-Tech Zone Venture Investment Holding Group Co., Ltd. ("WXVI") and Wuxi New District Development Group Company Limited ("WXND") to the Company, making it the largest state-owned enterprise under Xinwu District Government by total assets in Xinwu District. WXGF plays an essential role in park operations, infrastructure construction and equity investment in Xinwu District. It is also engaged in engineering construction, property development, hotel operations, logistics and self-operated projects in Xinwu District. As of 31 March 2024, it was directly and wholly owned by the Xinwu District Government.

Exhibit 1. Shareholding chart as of 31 March 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**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 county-level cities in Wuxi City. Wuxi HIDZ also ranks among China's top 20 national-level high-tech industrial development zones.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP for the same period was RMB150,487, ranking first among all provinces in China.

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 economy is relatively strong with the third-highest GRP at the prefectural level in Jiangsu Province for more than 5 consecutive years. In 2023, it achieved a GRP of RMB1.5 trillion with a YoY growth rate of 6.0%. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry. Wuxi City's fiscal profile is strong and characterized by high fiscal sufficiency and a strong revenue-

generating ability. In 2023, its general budgetary revenue increased to RMB119.5 billion and an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) was above 85%. As of 31 December 2023, the local government's outstanding debt increased to RMB217.1 billion, accounting for 14.0% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Wuxi City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,400.3	1,485.1	1,545.6
GRP Growth (%)	8.8	3.0	6.0
General Budgetary Revenue (RMB billion)	120.1	113.3	119.5
General Budgetary Expenditure (RMB billion)	135.8	136.6	139.0
Local Government Debt (RMB billion)	160.8	187.4	217.1

Source: Statistics Bureau of Wuxi City, CCXAP research

Xinwu District and Wuxi HIDZ share the scope of government administration and management. Wuxi HIDZ is a national-level high-tech industrial development zone approved by the State Council in November 1992. It ranked 18th in the comprehensive evaluation of national-level high-tech zones in 2022 and ranked 2nd for three consecutive years in the comprehensive evaluation of innovation-driven high-quality development of Jiangsu Province's high-tech zones. It mainly lays out industries including the Internet of Things, integrated circuits, biomedicine, big data, and cloud computing. Xinwu District has attracted many large corporations to settle in such as Wuxi Lead Intelligent Equipment Co., Ltd. and SK Hynix Semiconductor (China) Co., Ltd., forming multi-industrial clusters. There are 38 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. Over the past three years, the GRP of Xinwu District has ranked 2nd in Wuxi City. In 2023, the GRP of Xinwu District increased by 6.1% YoY to RMB251.6 billion. In addition, Xinwu District Government's fiscal strength is good. In 2023, its general budgetary revenue increased to RMB26.2 billion, and the average self-sufficiency rate was more than 100%. As of 31 December 2023, the local government's outstanding debt increased to RMB33.9 billion, accounting for 13.5% of the GRP.

Exhibit 5. Key economic and fiscal indicators of Xinwu District

	2021FY	2022FY	2023FY
GRP (RMB billion)	227.1	243.1	251.6
GRP Growth (%)	11.0	3.4	6.1
General Budgetary Revenue (RMB billion)	24.3	24.2	26.2
General Budgetary Expenditure (RMB billion)	17.5	19.1	20.2
Local Government Debt (RMB billion)	27.3	31.1	33.9

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, carrying capital venture and related business around high-tech and strategic emerging industries. WXGF is the largest stated-owned development

and investment entity under Xinwu District Government by total assets in Xinwu District and is responsible for all industrial parks except Taike Park.

WXGF provides sewage treatment, bus, and power substation services in Xinwu District. As of 31 March 2024, the Company has 3 sewage treatment plants with a designed treatment capacity of 665 thousand tons per day. The Company receives payments 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. As of the end of March 2024, the Company has 3 projects under construction to improve the treatment capacity, with a total investment of RMB755 million and an uninvested amount of RMB519 million. As of 31 March 2024, the Company operated 47 bus routes with a fleet of 357 buses. Considering its public nature, the business generates low revenues and is highly dependent on subsidies from the government, such as operating mileage subsidies, oil subsidies and travel subsidies. The Company also provides voltage conversion services for enterprises settled in the Singapore Park, and is responsible for the construction, operation and maintenance of the power network. The Company's power supply capacity has continued to grow in recent years, reaching 175,000 KVA on 31 March 2024.

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 2024, the Company's entrusted construction projects under construction had a total investment of RMB454 million and an uninvested amount of RMB84 million, and there were no projects under planning.

Increased risk exposure to commercial activities

WXGF's exposure to commercial activities has increased in recent years along with ongoing investment which mainly includes 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 promoting 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 realizes 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 has increased steadily. The Company's stable rental income is conducive to reducing the risks of the property development business. In 2023, the Company's rental income was around RMB639.8 million. As of 31 December 2023, all completed residential housing projects have been sold out and realized profit; and the revenue from most of the completed office building projects have already covered the investments, while there was a project just completed and not sold. At the same time, the Company had 3 key residential housing projects under construction, with a total investment of RMB5.3 billion and an uninvested amount of RMB2.4 billion. The Company has large land reserves but most of it lacks a clear development plan. Concerns about de-stocking could increase if significant development began. During the slowdown in 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, lending to relatively high investment risk. 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 100% shares of the New Dynamic Fund through WXVI

and WXND, which is an industrial 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 2024, the New Dynamic Fund has invested in a cumulative total of 44 projects through direct investment and SPVs in cooperation with well-known investment institutions, most of which have signed guarantee agreements with minimum return commitments ranging from 7% to 9%. Most of the projects have not yet reached the exit period and only 3 projects have been exited and realized returns of RMB55.5 million in total. WXVI, the subsidiary of the Company, has a diversified investment portfolio including equity participation in financial institutions, industrial direct investment and participation in different industrial development funds. WXVI yielded certain returns from exited projects but projects under investment were still in their early stage and met certain impairments. As of 31 March 2024, WXVI's industrial direct investment portfolio was around RMB108.1 million, and the return on exited industrial direct investments was around 14.9%. In 2023, the Company's investment income was around RMB164.2 million.

In addition, the Company also has several self-operated projects under construction with a total investment of around RMB8.6 billion, including a Cultural Arts Center, Sports Center and affordable housing for rent. In the future, the self-operated projects may need to rely on operating income such as ticket fees and rental income to balance the initial investment, bringing more uncertainties to the Company. In addition, the Company started the engineering construction business in 2022 and generated a supplementary income of around RMB389 million in 2023. As of 31 March 2024, 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 investment and development entity in Xinwu District, WXGF has a good track record of receiving government support, such as obtaining special funds for project construction, 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 state-owned enterprise under Xinwu District Government by total assets.

The Company and its subsidiaries have continued to receive government payments in the form of capital injections, subsidies, and project payments during the past three years. For example, in 2023, the local government increased the Company's paid-in capital in cash by RMB290 million, and it transferred the equities of other state-owned enterprises and property assets to the Company with a total book value of RMB69.5 million. In 2023, the Company received RMB293.4 million in subsidies and RMB2.0 billion in project repayments. 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 fundraising from 2019, and the Wuxi High-Tech Zone Management Committee pays the Company management fee, which is generally 1.5% of actual investment. 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 has grown rapidly over the past three years due to investments in commercial activities such as property development, self-operated projects, and financial investment. As of 31 December 2023, the Company's total debt increased to RMB51.0 billion from RMB36.0 billion at end-2022, with a YoY increase of 41.7%. At the same time, its total capitalization ratio, calculated as a ratio of total debt to total capital, also grew to 66.9% from 61.9% at end-2022. Nevertheless, the Company maintains a good liquidity profile and financial

flexibility. As of 31 December 2023, the short-term debt accounted for less than 20% of the total debt and the ratio of cash to short-term debt was around 0.5x. However, the Company has large future investment plans, which will be used for sewage treatment, property development, and self-operated projects. As of end-2023, the Company's estimated investment in projects under construction was RMB8.6 billion, mainly self-operated projects; the total investment in projects under planning was RMB1.9 billion. 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.

In 2023, WXGF's total assets increased significantly by around 30.0% YoY to RMB83.9 billion mainly due to continued progress in the projects, acquisition of land parcels located in Xinwu District, and the increase in the scale of transactions with local governments and state-owned enterprises. The Company's assets were mainly comprised of large investment properties calculated using the cost method and generated recurring income, as well as land reserves to be developed as of the end of 2023. At the same time, the restricted assets accounted for 12.0% of total assets.

Good access to diversified financing channels

Both Wuxi City and Xinwu District are well-developed cities with strong economic strengths and good financial environment, which we expect to be supportive for WXGF to maintain its good financing channels. 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 policy banks, joint-stock commercial banks and large state-owned commercial banks, such as China Development Bank, China Minsheng Bank and Agricultural Bank of China. As of end-2023, the Company had a total credit facility of RMB54.2 billion from banks, with an unused amount of RMB27.6 billion. As of the same date, bank loans accounted for 53.2% of the total debt. As of end-2023, the Company's outstanding bond balance accounted for around 28.9% of total debt, which were issued by its subsidiaries including WXVI and WXND. These subsidiaries have a good presence in the domestic debt market. For example, in the first half year of 2024, WXND issued several tranches of 3-year and 5-year domestic bonds with relatively low coupon rates, raising a total of RMB2.0 billion. As of 31 December 2023, the Company's non-standard financing exposure remained moderate and accounted for approximately 17.9% 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 2023, the total amount of external guarantees was approximately RMB5.0 billion, representing 19.5% of net assets. The objects of the guarantees are all state-owned enterprises in Xinwu District, and all guarantees have counter-guarantee measures.

ESG Considerations

WXGF faces environmental risks because it has undertaken infrastructure construction projects. 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 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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656