

Tongren Transport & Tourism Development & Investment Group Co., Ltd

Hong Kong

Category: Corporate Rating
 Rating Type: Solicited Rating
 Industry: Local Government Financing Vehicles
 Long-term Credit Rating ^[Note]: BBB_g-
 Short-term Credit Rating ^[Note]: A_g-3
 Rating Outlook: Stable

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Key Indicators

Tongren Transport & Tourism Development & Investment Group Co., Ltd ^[1]	2016	2015	2014
Total Assets (RMB billion)	8.0	2.4	2.4
Total Assets (USD billion) ^[2]	1.2	0.4	0.4
Net Assets (RMB billion)	5.4	2.1	2.1
Net Assets (USD billion) ^[2]	0.8	0.3	0.3
Total Revenue (RMB million)	53.1	70.2	39.8
Total Revenue (USD million) ^[2]	7.7	10.8	6.5
Net Profit (RMB million)	36.1	29.9	-2.4
Net Profit (USD million) ^[2]	5.2	4.6	-0.4
Gross Margin (%)	5.7	19.4	13.4
Return on Equity (%)	1.0	1.4	-0.1
Total Debt / Total Capital (%)	31.5	6.9	7.0
Total Liabilities / Total Assets (%)	33.0	10.3	11.4
Total Debt / EBITDA (x)	35.8	4.5	126.3
EBITDA / Interest (x)	17.8	32.2	0.9

[1] Consolidated financial statements in accordance with China Financial Reporting Standards audited by China Audit Asia Pacific Certified Public Accountants LLP.

[2] Exchange rates for 2014 (1 USD = 6.1190 CNY), 2015 (1 USD = 6.4936 CNY), and 2016 (1 USD = 6.9370 CNY) announced by PBOC

Source: Company data, CCXAP research

Note: The ratings do not entail annual surveillance, and will be valid until 1 November 2018.

Rating Drivers

- High level of support from Tongren Municipal Government
- Steady revenue growth from primary business but relatively weak profitability
- Moderate credit metrics with heightened debt leverage
- Sizable capital expenditure due to large scale of project construction

Rating Rationale

The BBB_g- long-term credit rating of Tongren Transport & Tourism Development & Investment Group Co., Ltd (“TTT” or the “Company”) is underpinned by (1) Tongren’s increasing economic and financial strength; (2) high level of governmental support given the Company’s strong strategic position; and (3) steady revenue growth from the operation and construction of tourism resources in Tongren City. However, the rating also is constrained by (1) Tongren’s high dependency of financial subsidies from higher-tier government and heightened government debt ratio; (2) the Company’s sizable capital expenditure due to large scale of project construction.

CCXAP has assigned A_g-3 short-term credit rating to TTT’s USD short-term senior bonds.

Rating Outlook

The stable outlook on TTT’s rating reflects its strong position in Tongren City with high level of support from the Tongren Municipal Government. We expect that the Company will maintain its vital position in tourism resources development.

What could upgrade the rating?

The rating could be upgraded if (1) there are favorable regulatory framework changes to the Company; (2) the Company improves its credit metrics, such as debt leverage and liquidity.

What could downgrade the rating?

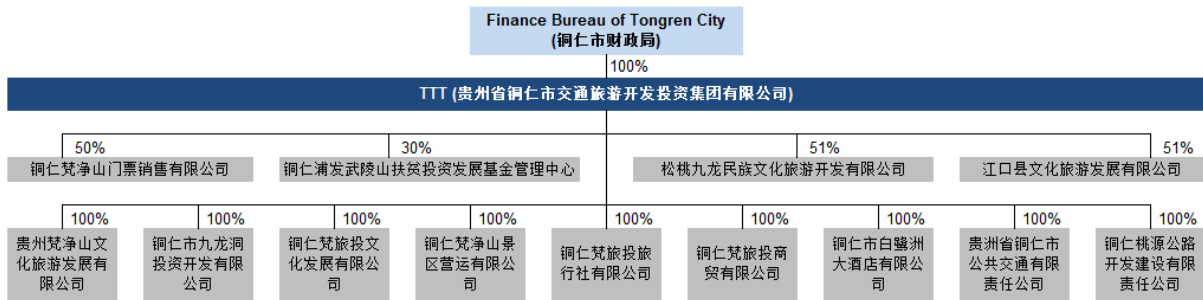
The rating could be downgraded if (1) there is weakening support from the Tongren Municipal Government; (2) increasingly sizable capital expenditure exerts pressure on its credit profile.

Corporate Profile

Established in 2009, TTT was formerly known as Tongren Fanjing Mountain Tourism Development & Investment Co., Ltd. TTT is directly and wholly owned by the Finance Bureau of Tongren City and is supervised by Tongren Municipal Government. TTT is a local government financing vehicle (LGFV) acting as the important development and investment platform of tourism and transportation resources in Tongren City.

As of 31 December 2016, TTT reported consolidated total assets and total equity of RMB 8.0 billion and RMB 5.4 billion, respectively. In 2016, TTT generated total revenue and net profit of RMB 53.1 million and RMB 36.1 million, respectively.

Exhibit 1. Shareholding and Organization Chart as of September 2017



Source: Company information

Detailed Rating Considerations

1. Improving but relatively weak economic and financial strength of Tongren Municipal Government

The economic development of Tongren City has maintained a steady growth but presented relatively weak economic strength in recent years. Tongren’s GDP reached RMB 85.7 billion in 2016, ranking No.8 among 6 cities and 3 prefectures in Guizhou Province, which was a relatively weak position. Tongren’s GDP witnessed a fast YoY growth rate of 11.9% in 2016, higher than that of Guizhou Province (10.5%) and Guiyang City (11.7%). The primary, secondary and tertiary industries accounted for 23.7%, 28.4% and 47.9% of GDP in 2016, as compared to 24.8%, 28.7% and 46.5% in 2015, respectively. The proportion of tertiary industries has increased mainly due to rising GDP contribution by tourism industry, which achieved RMB 34.7 billion or 40.5% of GDP in 2016. Thus the economic structure of Tongren has been further enhanced.

Exhibit 2. Tongren’s GDP and Growth

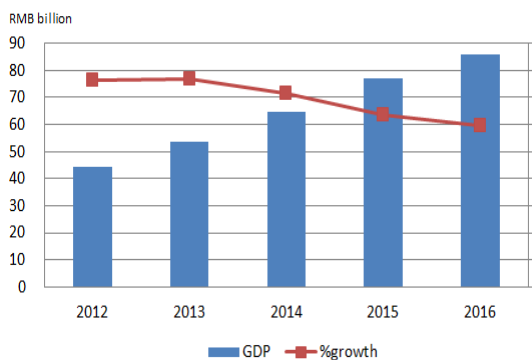
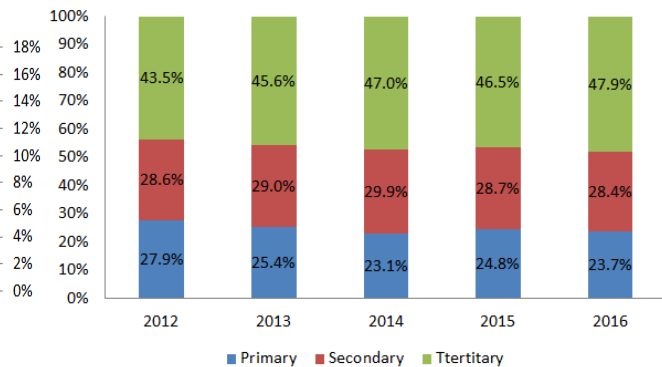


Exhibit 3. Tongren’s Economic Structure



Source: Tongren Municipal Government statistics, CCXAP research

Tongren has demonstrated growing financial strength but relatively high degree of dependency on financial support from the higher-tier government. Tongren’s fiscal revenue reached RMB 39.0 billion in 2016, increasing by 7.8% YoY. The financial subsidies from higher-tier government accounted for 61.8% of total fiscal income in 2016, showing relatively weak self-financing ability of Tongren Municipal Government. Tongren has also demonstrated a relatively large amount of government debt. At the end of 2016, Tongren Municipal Government reported total government debt balance of RMB 67.6 billion, including direct debt of RMB 67.0 billion and 50% on guaranteed debt of RMB 1.05 billion. The debt ratio of Tongren exceeded 100% in 2016, representing debt service pressure.

Exhibit 4. Economic and fiscal data of Tongren Municipal Government in 2014-2016

	2016	2015	2014
GDP (RMB billion)	85.7	77.1	64.8
GDP growth (%)	11.9	12.7	14.3
Fiscal revenue (RMB billion)	39.0	36.1	31.3
Fiscal expenditure (RMB billion)	41.8	36.9	31.7

Source: Tongren Municipal Government statistics, CCXAP research

Overall, high level of support from Guizhou Provincial Government helps provide certain guarantee for Tongren's financial strength. The steady growth of regional economy and fiscal revenue helps strengthen the position of local government and improve the level of government support to the Company. However, due to high dependency of financial subsidies from higher-tier government and debt service pressure, the support strength of Tongren Municipal Government is expected to be significant for the future development of TTT.

2. High level of support from Tongren Municipal Government

As the key state-owned enterprises primarily engaging in the development and investment of transportation and tourism resources in Tongren City, the Company received high support from the Tongren Municipal Government given its vital market position and strong strategic role. The local government has a track record of providing ongoing support to TTT in the forms of capital injection, land transfers, financial subsidies and tax benefits.

TTT received a total amount of RMB 1,375 million of capital injection from the Finance Bureau of Tongren City. In terms of asset injection, in November 2013, Tongren Municipal Government announced that the projects in Jiulong Cave would be undertaken by TTT, and the Company recognized the value of RMB 52 million as capital premium. In July 2016, the Company recognized the investment of RMB 1,950 million received from Finance Bureau of Tongren City as capital premium. In terms of land transfer, Tongren Municipal government injected a parcel of tourism land worth RMB 1,879 million in August 2012 and a parcel of commercial land worth RMB 64 million in December 2012. In terms of financial subsidies, TTT received government subsidies of RMB 29.0 million and RMB 21.6 million in the year of 2015 and 2016, respectively, which included subsidized loan of RMB 2.0 million from Central Tourism Development Fund in 2015 and construction bonus of RMB 0.6 million from Finance Bureau of Tongren City in 2016. In addition, the Company has been subject to corporate income tax of 15% under the approval of Tax Bureau since January 2014, below the national standard of 25%.

Exhibit 5. Financial support from Tongren Municipal Government in 2014-2016

	2016	2015	2014	Before 2014
Capital injection (RMB million)	1,275	-	-	100
Asset injection (RMB million)	1,950	-	-	3,945
Financial subsidies (RMB million)	21.6	29.0	1.0	-

Source: Company data, CCXAP research

We anticipated that Tongren Municipal Government and Finance Bureau of Tongren City will provide ongoing support to TTT given its close relationship and strategic relevance with local government.

3. Steady revenue growth from primary business but falling gross profit margin

TTT demonstrated steady revenue growth from tourism business in recent years, mainly contributed by ticket sales from Fanjing Mountain and Jiulong Cave and sightseeing bus services fee from Jiulong Cave. The Company achieved total revenue of RMB 53.1 million in 2016, as compared to RMB 70.2 million in 2015 and RMB 39.8 million in 2014. The Company generated over 85% of its 2016 revenue from Fanjing Mountain scenic area.

Exhibit 6. Revenue breakdown by different segments in 2014-2016

	Revenue (RMB million)			% of Revenue (%)			Gross Margin (%)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Fanjing Mountain	45.8	40.7	34.6	86.3	58.0	86.9	8.0	10.1	11.3
Jiulong Cave	3.8	5.7	4.3	7.2	8.1	10.8	-33.4	28.9	30.2
Tourism Services	3.2	1.3	0.8	5.9	1.8	2.1	12.1	14.1	12.5
Others	0.3	22.6	0.1	0.6	32.1	0.2	83.0	34.2	100.0
Total	53.1	70.2	39.8	100.0	100.0	100.0	5.7	19.4	13.4

Source: Company data, CCXAP research

TTT achieved gross margin of 5.7% in 2016, as compared to 19.4% in 2015 and 13.4% in 2014. The ticket discount and free ticket offer of Fanjing Mountain resulted in the decline in gross profit margin. In February 2016, several dangerous rocks in Jiulong Cave led to the decrease in tourist amount and ticket sales. The decline in gross profit margin was mainly due to the reduction in the proceeds from ticket sales and sightseeing bus services in Jiulong Cave.

Exhibit 7. Ticket revenue of two scenic spots in 2015 and 2016

	Ticket Price (RMB)	Tourist Amount (thousand)		Ticket Revenue (RMB million)	
		2016	2015	2016	2015
Fanjing Mountain	110 (Mar to Nov)	508.1	425.3	45.8	40.7
	90 (Dec to Feb)				
Jiulong Cave	90	49.0	62.7	3.8	4.6
Total		557.1	496.1	52.8	45.4

Source: Company data, CCXAP research

Fanjing Mountain National Nature Reserve was constructed by Wuhan Sante Cableway Group Co., Ltd. ("WSC") in 2003. The pre-tax ticket sales was recognized as the Company's revenue of main business, 85% of which paid to a subsidiary of WSC and recognized as cost of main business. Owing to the publicity of Fanjing Mountain by the Ministry of Tourism of Tongren City, the open of high-speed rail station and the increase in number of flights, the number of tourists grew from 425.3 thousand in 2015 to 508.1 thousand in 2016, resulting in the ticket revenue of 40.7 million and 45.8 million in 2015 and 2016, respectively.

In October 2013, Tongren Municipal Government franchised the operation of Jiulong Cave to TTT expiring in March 2023. The ticket sales were included in the Company's revenue of main business. The number of tourists decreased from 62.7 thousand in 2015 to 49.0 thousand in 2016 caused by the discovery of several dangerous rocks in Jiulong Cave. In consequence, the ticket revenue realized

RMB 3.8 million in 2016, reducing from RMB 4.6 million in 2015. In Apr 2017, Jiulong Cave has been closed for facilitate upgrade and maintenance, which is expect to be re-opened at the end of 2017.

We expected the sustainability and stability of tourism business remains high in connection with the Company's strategic role in Tongren City. Together with the completion of projects under construction and further development of tourism resources, the Company's revenue will continue to rise. Also, its operating profit may be improved along with the potential revenue growth from tourism services.

4. Moderate profit growth with relatively weak profit generation capability

Although TTT recorded steady growth in gross revenue, it showed a relatively weak operating profitability. The Company achieved total profit of RMB 61.2 million in 2016, as compared to RMB 31.2 million in 2015. The Company generated over 80% of total profit in 2016 from the investment income of Wuling Mountain Poverty Alleviation Fund, with a smaller portion from operating and non-operating profit. In 2016, on behalf of Tongren Municipal government, the Company subscribed total investment of RMB 4,290 million with upfront investment of RMB 1,275 million in Wuling Mountain Poverty Alleviation Fund. The main source of non-operating income was financial subsidies from Finance Bureau of Tongren City, demonstrating high dependence on financial subsidies. In terms of profitability metrics, TTT's return on asset and return on equity recorded 1.3% and 1.0% in 2016.

The Company's overall profitability was relatively weak due to its high reliance on financial subsidies. We expect the development of tourism business and the investment in Wuling Mountain Poverty Alleviation Fund will help improve the Company's total profit, which could potentially reduce the degree of dependence on financial subsidies.

5. Moderate credit metrics with heightened debt leverage

TTT demonstrated heightened debt leverage in recent years. As of 31 December 2016, the Company's total debt reached RMB 2,479.5 million, rising from RMB 142.8 million in 2015. In consequence, the debt-to-capital ratio increased to 31.5% in 2016 from 6.9% in 2015, while the liabilities-to-assets ratio increased to 33.0% in 2016 from 10.3% in 2015. TTT's heightened debt leverage in 2016 was mainly due to a long-term loan of RMB 2300 million from Shanghai International Trust Company at an interest rate of 7% and with a maturity of 3 years. As for the credit metrics, the total debt to EBITDA ratio was 35.8x and the EBITDA interest coverage ratio was 17.8x in 2016.

As of 31 December 2016, the restricted assets of TTT were approximately RMB 297.3 million, representing 3.7% of total assets. As of 31 December 2016, the Company provided guarantee to related parties of RMB 37 million, representing 0.7% of net assets. The guaranteed subsidiary was Tongren City Jiulong Cave Tourism Investment & Development Co., Ltd. The Company has no external guarantee, and the risk of contingent liabilities is manageable.

We expect the company will widen its access to capital markets and the total debt level is expected to increase. We will continue to monitor the debt level and leverage of the Company.

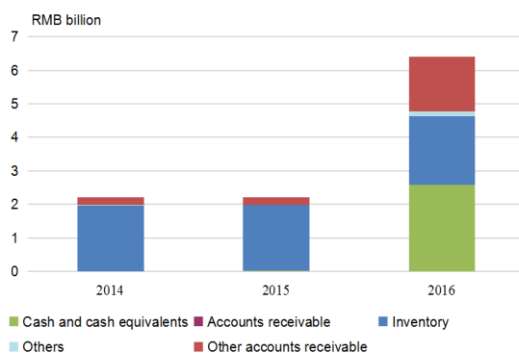
6. Relatively good liquidity profile

As of 31 December 2016, the Company's total assets amounted to RMB 8,041 million, 80.0% of which were current asset. The Company's current assets were mainly consisted of cash reserves (40.2%), inventories (32.2%) and other accounts receivable (25.6%). The Company's cash reserves

recorded RMB 2,575 million at the end of 2016 as compared to RMB 32 million at the end of 2015. Total account receivables reported RMB 1,635 million at the end of 2016 as compared to RMB 218 million at the end of 2015. The fast-growing receivables were mainly from Finance Bureau of Tongren City and other departments of the local government, indicating the Company's high dependency on government payment and certain pressure on capital usage.

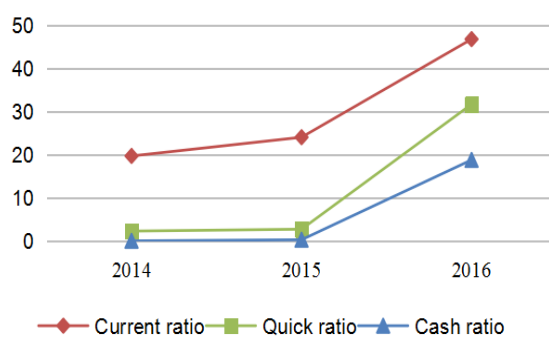
In addition, the Company's total credit facilities amount from banks and other financial institutions was RMB 21.3 billion, RMB 17.1 billion of which remained uncommitted. In terms of liquidity indicators, there was an obvious increase in the cash ratio, quick ratio and current ratio in 2016, resulting from the rise of cash reserves. The current ratio achieved 46.8x in 2016, representing the Company's adequate liquidity buffer.

Exhibit 8. Current Assets Breakdown



Source: Company data, CCXAP research

Exhibit 9. Liquidity Indicators in 2014-2016



As TTT constructed projects with relatively long construction period, the Company utilized long-term debt to meet its financing need. There was no short-term debt reported in the Company's 2016 balance sheet, as compared to RMB 14.0 million in 2015. The net cash flow generated from operating activities increased from RMB 39.4 million in 2015 to RMB 56.3 million in 2016. In terms of solvency indicators, the Company is in the situation of adequate solvency in the short term.

Nevertheless, the Company's sizable capital expenditure of project development will exert pressure on its liquidity profile. The pressure could be partially mitigated by the utilization of credit facilities from domestic banks and the refinancing capability of the Company.

7. Sizable capital expenditure due to large scale of project construction

TTT is mainly engaged in the construction and management of the surrounding area of Fanjing Mountain and Jiulong Cave in Tongren City, resulting in heavy capital expenditure. Currently, TTT adopts agent model for the construction of most infrastructure projects. The Company conducts project construction and charges cost plus 15% as management fee, which is paid by Finance Bureau of Tongren City within 3 years after the completion of projects. The buy-back amount includes construction cost, financing cost, reasonable profit and taxes.

As of 31 December 2016, the major projects under construction were mainly in Fanjing Mountain and Jiulong Cave. The aggregate investment amount was estimated at approximately RMB 2,284.4 million with invested amount of RMB 157.3 million and additional financing need of RMB 2,127.1 million. Also, the aggregate investment amount of two projects under planning is estimated at approximately RMB 2,150.0 million, and the construction period will be concentrated during the period of 2017-2020.

Exhibit 10. Projects under construction as of 31 December 2016

Location	Projects	Total investment (RMB million)	Invested amount (RMB million)	Construction period
Jiulong Cave	Road from Renjiawan to Jiulong Cave	55.1	73.8	3 years
Jiulong Cave	Infrastructure Construction and Parking Lot in Jiulong Cave	48.7	79.7	3 years
Jiulong Cave	National Natural Heritage Protection Facilities Construction in Jiulong Cave	13.0	0.3	3 years
Jiulong Cave	Water Park in Jiulong Cave	180.0	0.3	2 years
Sub-total		296.8	154.1	-
Fanjing Mountain	Maitreya and Imperial Palace in Fanjing Mountain	1,987.6	3.2	5 years
Sub-total		1,987.6	3.2	-
Total		2,284.4	157.3	-

Source: Company data, CCXAP Research

Exhibit 11. Projects under planning as of 31 December 2016

Projects	Total investment (RMB million)	Construction period
Heiwan River Waterway Sightseeing Project	2,000.0	2017-2020
Jiulong Cave Reconstruction Project	150.0	2017-2018
Total	2,150.0	

Source: Company data, CCXAP Research

As the investment and construction entity of tourism resources in Tongren City, the Company is still in the early stage of development with a large scale of project pipelines, which exerts pressure on its future capital expenditure. After completion of the projects, the Company's revenue is expected to rise with expanding sources of tickets income. But considering the agent-construction projects have not been recognized as revenue, investments in the projects may exert pressure on the company's capital expenditure in the near future.

8. Recent Development on Integration and Consolidation

In July 2017, on the basis of Tongren Fanjing Mountain Tourism Development & Investment Co., Ltd., Tongren Municipal Government announced the integration of six platforms and consolidation of TTT. After the integration and consolidation, TTT is directly and wholly owned by Finance Bureau of Tongren City. The Company is now constituted of 9 wholly-owned subsidiaries, 2 joint-stock companies and 2 associate companies. To implement a contemporary governance structure, the Company establishes the board of directors and the board of supervisors, and the senior management is under the leadership of the board of directors.

Given the development strategies of "consolidated traffic, integrated tourism, big data and poverty alleviation", the Company mainly engages in six business segments, namely, traffic and tourism construction, tourism development and operation, transportation operation, cultural media, data operation and asset management. TTT is estimated to report consolidated core assets of RMB 12.0 billion and controllable assets of RMB 20.0 billion, respectively. In 2017, TTT is forecasted to generate total revenue of RMB 1.05 billion and net profit of RMB 0.4 billion, respectively.

As for tourism business, the Company is planning on "the Belt and Dual-core Initiative" boutique tourism route, which refers to Fanjing Mountain, Tongren Ancient City, and the tourism zone between these two scenic spots. The route is about 83 kilometers in length and approximately 150 square kilometers in area and covers 7 towns and 26 villages with abundant tourism resources. The construction of "the Belt" will rely on the farming culture and natural scenery along Taiping River and Jinjiang River. The protection and development of Fanjing Mountain will be implemented simultaneously, and the ticket price will be able to increase with diversification in tourism attractions and expansion of scenic area. The infrastructure of Tongren Ancient City will be promoted by combing the Central South Gate and Jinjiang River.

The Company's traffic businesses are divided into design and operation, transportation and construction sectors. In the aspect of construction, the Company built highways and rural roads with the length of 3,700 kilometers in 2016. The length is estimated to increase to 4,000 kilometers in 2017. The Company bids and awards the construction contracts, 80% of which are from Transport Bureau and other government departments, resulting in a relatively low rate of bad debts.

After the completion of restructuring, Tongren Municipal Government set clear business scope of TTT and other two LGFVs in Tongren City. The development strategy is consistent with the planning of the Provincial and Municipal governments. The Company is supposed to become a self-financing and market-oriented enterprise by developing transportation to facilitate tourist consumption and integrating resources to realize holistic operation. At the same time, the Company is facing challenges including the innovation of financing channels and the difficulties in resources integration.

TTT's short-term credit rating is in line with its long-term credit rating given the liquidity and solvency in the short run. The ratings also reflect that we expect government support would likely be provided to the Company in any financially distressed situation. TTT is to issue USD senior bonds with a maturity of 364 days due on 1 November 2018. The bonds are direct, unconditional, unsubordinated and unsecured obligations of the Company.

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ AAg AAg-	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ Ag Ag-	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ BBBg BBBg-	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ BBg BBg-	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ Bg Bg-	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCCG	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

C. Short-term Credit Ratings

A short-term credit rating refers to a rating for a period of less than 12 months.

Rating Symbol	Definition
Ag-1	Capacity to meet short-term financial commitments is extremely strong with a high level of safety.
Ag-2	Capacity to meet short-term financial commitments is strong with a high level of safety.
Ag-3	Capacity to meet short-term financial commitments is average but the safety may be easily affected by adverse business, financial, or economic conditions.
Bg	Capacity to meet short-term financial commitments is weak with a high probability of default.
Cg	Capacity to meet short-term financial commitments is very weak and the probability of default is very high.
Dg	Unable to meet financial commitments. Default is confirmed.

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