

## 2022 Issue 7

From February 21 to February 25

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## Chinese offshore bond issuance increased sharply; return on Chinese USD bond continued to fall

### Headline: Russia-Ukraine conflict escalated rapidly, US and EU imposed financial sanctions

This week, Russia recognized the "Donetsk People's Republic" and the "Luhansk People's Republic" and launched an all-out attack on Ukraine. The conflict between Russia and Ukraine has escalated rapidly. On February 26, US, EU, UK and Canada issued a joint statement announcing that Russia was prohibited from using the international settlement system, Society for Worldwide Interbank Financial Telecommunication (SWIFT). Although the Central Bank of Russia launched SPFS to replace SWIFT in 2014, the system has only more than 400 users, and its influence is unlikely to have a substitution effect on SWIFT. In addition, the importance of Russian Ruble in international trade remains insufficient. The sanctions would cause the Russia's economy to shrink by 5% and increase the uncertainty over the repayment of Russia's sovereign debt.

### Exchange Rate: Exchange Rate: RMB exchange rate fluctuated slightly

This week, the RMB exchange rate fluctuated slightly. As of February 25, the RMB mid-point rate closed at 6.3346, rising by 3bp compared with last Friday.

### Interest Rate: China Government Bond yields moving up and down; US Treasury yields climbed

This week, China Government Bond yields moved up and down. The short-term uncertainty caused by Russia and Ukraine has weakened the market's expectation that the Fed will increase the interest rate sharply. Expectations of an accelerated narrowing US-China interest rate spreads have been eased. At the beginning of the week, concerns about inflation and interest rate hikes continued to push up US Treasury yields. Afterward, Russia's military action against Ukraine spooked the market, causing a pullback of US Treasury yields. As of February 25, the yield spread between China and US 10-year note was 81.3bp, narrowing by 5.6bp from last Friday and narrowing by 33.4bp from the beginning of the year.

### Chinese Offshore Bond Market

#### Primary Market: Chinese offshore bond issuance increased sharply

From February 21 to February 25, there were 32 new issues with a total issued volume of USD7.3 billion, a sharp increase of 97.6% from last week. Among them, financial institutions (including banks) were the largest issuer, which issued 19 bonds with a total amount of USD3.7 billion.

#### Secondary Market: Return on Chinese USD bond dropped

As of February 25, the YTD return on Chinese USD corporate bond index decreased by 118bp from last Friday to -4.33%. The return on investment-grade bond decreased by 63bp to -2.56%, and the return on high-yield bond decreased by 312bp to -10.44%. In terms of sector indices, the return on real estate bonds decreased the most, which decreased by 442bp from last Friday to -14.86%.

#### Rating Action: Several real estate companies were downgraded

### Panda Bond Market: BMW Finance and China Mengniu issued 3 bonds altogether this week

On February 21, Type I and Type II of the first series of 2022 BMW Finance N.V. Medium Term Note was successfully issued in the China Interbank Market. Type I bond has a tenor of 2 years, raising RMB1.5 billion, at the coupon rate of 2.89%; Type II bond has a tenor of 3 years, raising RMB2.5 billion, at the coupon rate of 3.10%. CCXI assigned AAA to the issuer.

On February 24, the second series of 2022 China Mengniu Dairy Company Limited Super & Short-term Commercial Paper was issued in the China Interbank Market, raising RMB2.5 billion, with a tenor of 90 days, at a coupon rate of 2.33%. CCXI assigned AAA to the issuer.

### Issuer Analysis: CHINA GAS HOLDINGS LIMITED

## Headline: Russia-Ukraine conflict escalated rapidly, US and EU imposed financial sanctions

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Founded in 1973 and headquartered in Brussels, Belgium, SWIFT is responsible for providing secured financial information transmission services for banks, other financial institutions and enterprises. In 2019, more than 11,000 banks and other financial institutions and enterprises in more than 200 countries and regions around the world used the SWIFT system for financial information transmission. In 2021, the SWIFT system processed 42 million financial messages per day. SWIFT involves the vast majority of cross-border transactions in the world and is of strategic significance to the global financial industry.

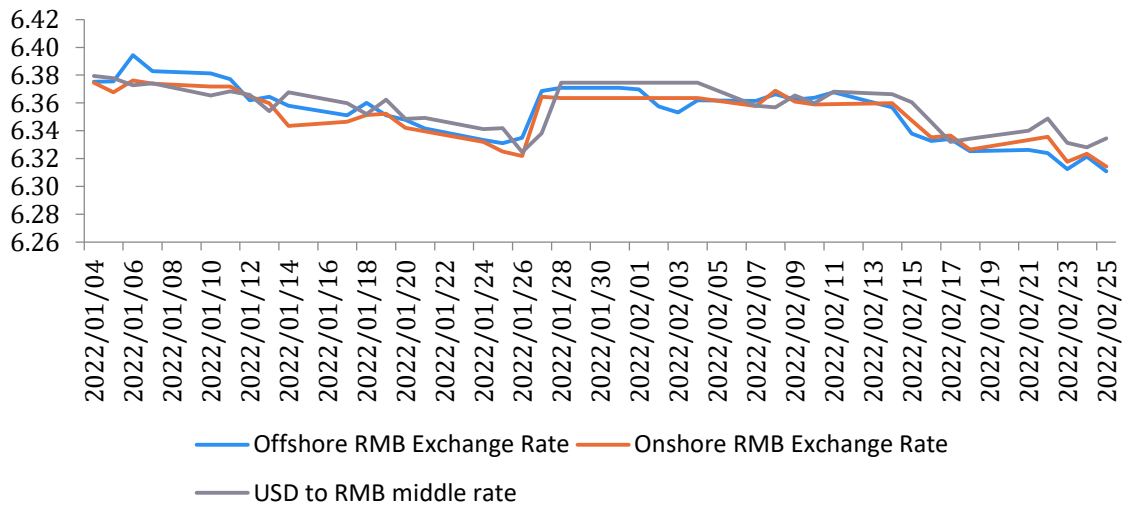
Although the Central Bank of Russia launched SPFS to replace SWIFT in 2014, the system so far has only more than 400 users, and its influence is unlikely to have a substitution effect on SWIFT. In addition, the importance of Russian Ruble in international trade remains insufficient. In January 2022, in the ranking of payment amounts in major currencies, USD, EUR, and GBP ranked among the top three, with share of 39.92%, 36.56%, and 6.3%, respectively, and RMB surpassed JPY in the fourth place, with a share of 3.2%. The Russian Ruble accounted for only 0.2% of international transactions in 2021, about 1/14 of RMB and 1/200 of USD.

In terms of the impact of the sanctions, Alexei Kudrin, former Russian Minister of Finance, estimated in September 2014 that the exclusion of Russia from the SWIFT system would cause the Russia's economy to shrink by 5% within a year. Meanwhile, the sanctions would increase the uncertainty over the repayment of Russia's sovereign debt.

## Exchange Rate: RMB exchange rate fluctuated slightly

This week, the RMB exchange rate fluctuated slightly. As of February 25, the RMB mid-point rate closed at 6.3346, increased by 3bp compared with last Friday; the onshore RMB exchange rate decreased by 123bp to 6.3142 compared with last Friday; the offshore RMB exchange rate decreased by 143bp to 6.3109 compared with last Friday. Under the circumstance of Russia and Ukraine, RMB's performance is stable, reflecting some of its safe-haven attributes.

Figure 1 : RMB exchange rate

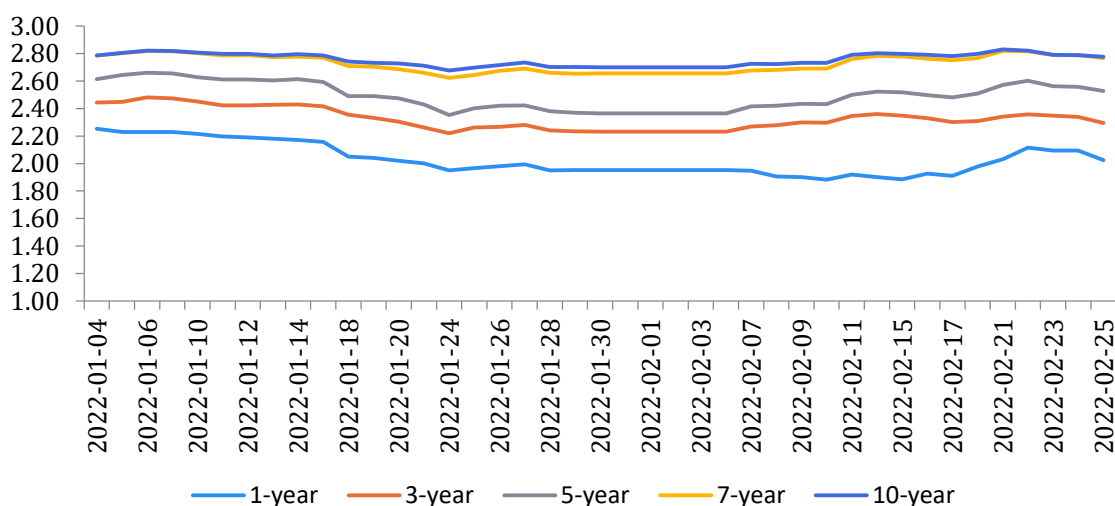


Sources: Wind, CCX research

**Interest Rate: China Government Bond yields moving up and down; US Treasury yields climbed**

This week, the China Government Bond yields moved up and down. As of February 25, the 1-year and 5-year China Government Bond yields fluctuated upward since last Friday and closed at 2.0242% and 2.5274% respectively; the 3-year, 7-year, and 10-year China Government Bond yields fluctuated downward since last Friday and closed at 2.2950%, 2.7662%, and 2.7750% respectively. The short-term uncertainty caused by Russia and Ukraine has weakened the market’s expectation that the Fed will increase the interest rate sharply. Expectations of an accelerated narrowing U.S. – China interest rate spreads have been eased.

Figure 2 : China Government Bond yields

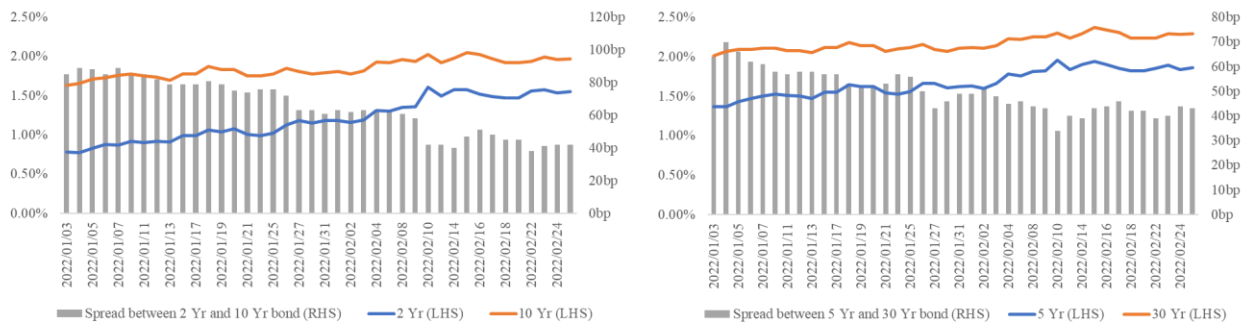


Sources: ChinaBond.com.cn, CCX research

At the beginning of the week, concerns about inflation and interest rate hikes continued to

push up US Treasury yields. Afterward, Russia’s military action against Ukraine spooked the market, causing a pullback of US Treasury yields. As of February 25, 2-year, 5-year, 10-year and 30-year Treasury yields closed at 1.55%, 1.86%, 1.97% and 2.29%, increasing by 8bp, 4bp, 5bp and 5bp from last Friday respectively. In terms of Treasury yield spreads, spread between the 2-year and 10-year narrowed by 3bp to 42bp, and spread between the 5-year and 30-year widened by 1bp to 43bp, from last Friday.

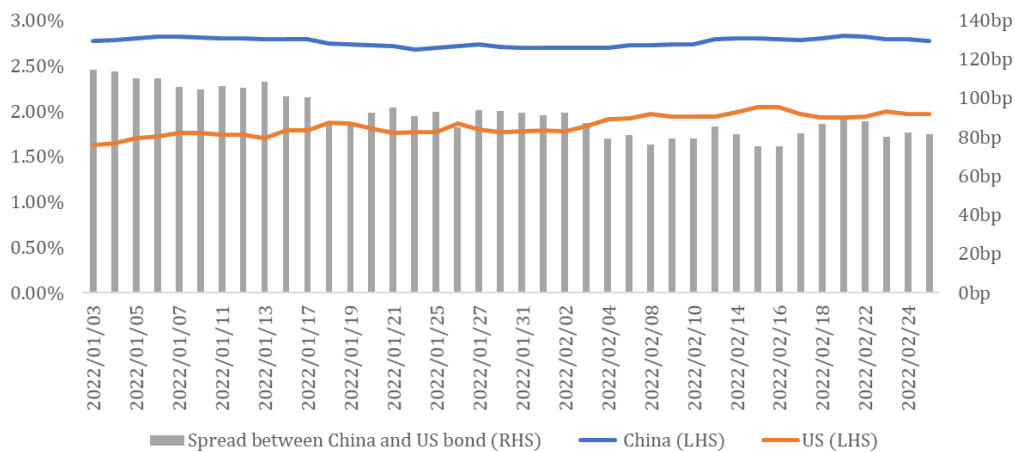
Figure 3 : US Treasury yields and yield spreads



Sources: US Department of the Treasury, CCX research

As of February 25, the yield spread between China and US 10-year note was 81.3bp, narrowing by 5.6bp from last Friday and narrowing by 33.4bp from the beginning of the year.

Figure 4 : Yield spread between China and US 10-year note



Sources: Bloomberg, ChinaBond.com.cn, CCX research

### Chinese Offshore Bond Market

#### Primary Market: Chinese offshore bond issuance increased sharply

From February 21 to February 25, there were 32 new issues with a total issued volume of USD7.3 billion, a sharp increase of 97.6% from last week. Among them, financial institutions (including banks) were the largest issuer, which issued 19 bonds with a total amount of USD3.7 billion.

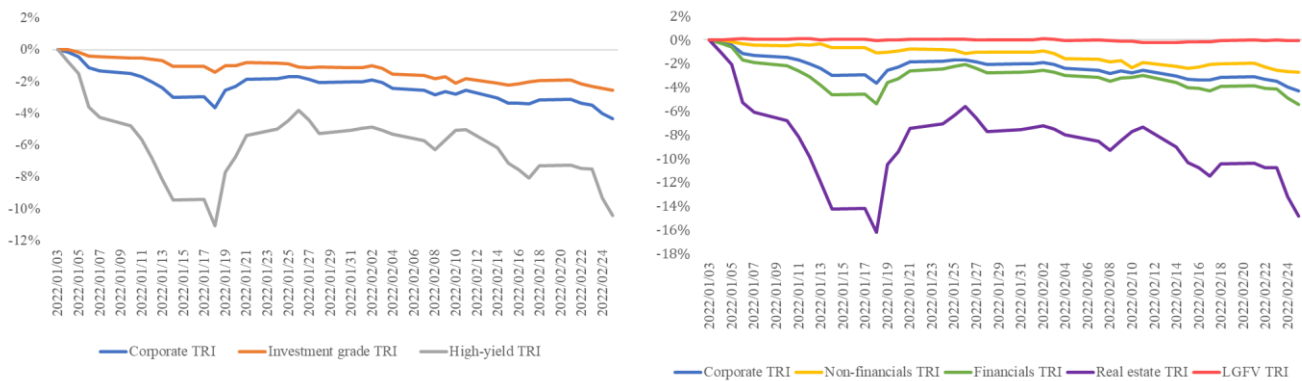
Table 1 : New issuance of Chinese offshore bonds (20220221-20220225)

Pricing Date	Obligor	Currency	Amount (million)	Coupon (%)	Maturity	Tenor	Industry	Issuer Rating (Moody's/S&P / Fitch)	Issue Rating (Moody's/S&P / Fitch)
2022/2/21	Bank of China Ltd/Macau	USD	3	2.65	2023/10/22	1.66	Banks	A1/A/A	-/-
2022/2/21	Bank of China Ltd/Macau	USD	3	1.915	2024/11/15	2.72	Banks	A1/A/A	-/-
2022/2/21	GDS Holdings Ltd	USD	620	0.25	2029/3/8	7	Communications	-/-	-/-
2022/2/22	Agricultural Bank of China Ltd/Hong Kong	CNY	1,300	2.9	2024/3/1	2	Banks	A1/A/A	A1/-
2022/2/22	Agricultural Bank of China Ltd/Hong Kong	USD	600	2	2025/3/1	3	Banks	A1/A/A	A1/-
2022/2/22	Agricultural Bank of China Ltd/Hong Kong	USD	300	2.25	2027/3/1	5	Banks	A1/A/A	A1/-
2022/2/22	Bank of China Ltd/Macau	USD	17	3.3	2023/12/14	1.8	Banks	A1/A/A	-/-
2022/2/22	China Tourism Group Corp Ltd	USD	700	2.95	2027/3/1	5	Consumer Discretionary	A3/A/-	A3/-
2022/2/22	CITIC Securities International Co Ltd	USD	1	14.95	2022/7/12	140D	Financials	-/BBB+/-	-/-
2022/2/22	GF Holdings Hong Kong Corp Ltd	USD	2	0	2022/7/25	147D	Financials	-/-	-/-
2022/2/22	Huatai International Financial Holdings Limited	USD	50	0.7	2022/4/25	59D	Financials	-/-	-/-
2022/2/23	Bank of China Ltd/Macau	USD	1	1.95	2024/12/14	2.79	Banks	A1/A/A	-/-
2022/2/23	Bank of China Ltd/Macau	USD	1	2.375	2026/10/8	4.61	Banks	A1/A/A	-/-
2022/2/23	CDB Leasing Co Ltd	USD	700	2.75	2025/3/2	3	Financials	A1/A/A+	A2/-A+
2022/2/23	CDB Leasing Co Ltd	USD	250	3.125	2027/3/2	5	Financials	A1/A/A+	A2/-A+
2022/2/23	China Merchants Bank Co Ltd/Sydney	USD	400	2	2025/3/2	3	Banks	A3/BBB+/A-	A3/-
2022/2/23	CMB International Leasing Management Ltd	USD	115	SOFR+80	2023/3/1	364D	Financials	Baa1/-	-/-
2022/2/23	Fugao Wantai Group Co Ltd	USD	130	4.2	2025/2/28	3	Industrials	-/-	-/-
2022/2/23	Huai'an Investment Holding Group Co Ltd	USD	300	3.3	2025/2/28	3	Chengtou	-/-	-/-
2022/2/23	Quzhou State Owned Capital Operation Co Ltd	USD	470	3	2025/3/2	3	Chengtou	-/BBB-	-/BBB-
2022/2/24	Bank of China Ltd/Macau	USD	3	2.95	2024/3/30	2.08	Banks	A1/A/A	-/-
2022/2/24	Bank of China Ltd/Macau	USD	2	4.3	2024/6/5	2.27	Banks	A1/A/A	-/-
2022/2/24	CNGR Advanced Material Co Ltd	USD	100	4.55	2027/3/3	5	Materials	-/-	-/-
2022/2/24	Huatai Securities Co Ltd	USD	1,000	2.375	2025/3/3	3	Financials	Baa1/BBB+/-	-/BBB+/-
2022/2/24	Nanjing Lishui Economic and Technological Development Group Co Ltd	USD	100	2.7	2025/3/3	3	Chengtou	-/-	-/-
2022/2/24	Nanjing Lishui Economic and Technological Development Group Co Ltd	USD	100	2.7	2025/3/3	3	Chengtou	-/-	-/-
2022/2/25	China Jinmao Holdings Group Ltd	USD	200	4.4	2025/3/4	3	Real Estate	-/BBB-/BBB-	Baa3/-
2022/2/25	Haitong International Securities Group Ltd	HKD	900	0.75	2022/6/7	92D	Financials	Baa2/BBB/-	Baa2/-
2022/2/25	Hubei United Development Investment Group Co Ltd	USD	300	3.1	2025/3/4	3	Chengtou	Baa2/-	Baa2/-
2022/2/25	Huzhou Wuxin City Investment & Development Group Co Ltd	USD	80	4	2025/3/2	3	Chengtou	-/-	-/-
2022/2/25	Qingdao Jiaozhou Bay Development Group Co Ltd	USD	300	3.2	2025/3/3	3	Chengtou	-/BBB-	-/-
2022/2/25	Yunnan Provincial Investment Holdings	USD	200	6.5	2025/3/2	3	Chengtou	-/-	-/-

### Secondary Market: Return on Chinese USD bond dropped

As of February 25, the YTD return<sup>1</sup> on Chinese USD corporate bond index decreased by 118bp from last Friday to -4.33%. The return on investment-grade bond decreased by 63bp to -2.56%, and the return on high-yield bond decreased by 312bp to -10.44%. In terms of sector indices, the return on real estate bonds decreased the most, which decreased by 442bp from last Friday to -14.86%. The returns on financial and non-financial bonds were -5.45% and -2.72%, decreased by 150bp and 70bp from last Friday, respectively, while the return on Chengtou bond was unchanged from last Friday at 0.08%.

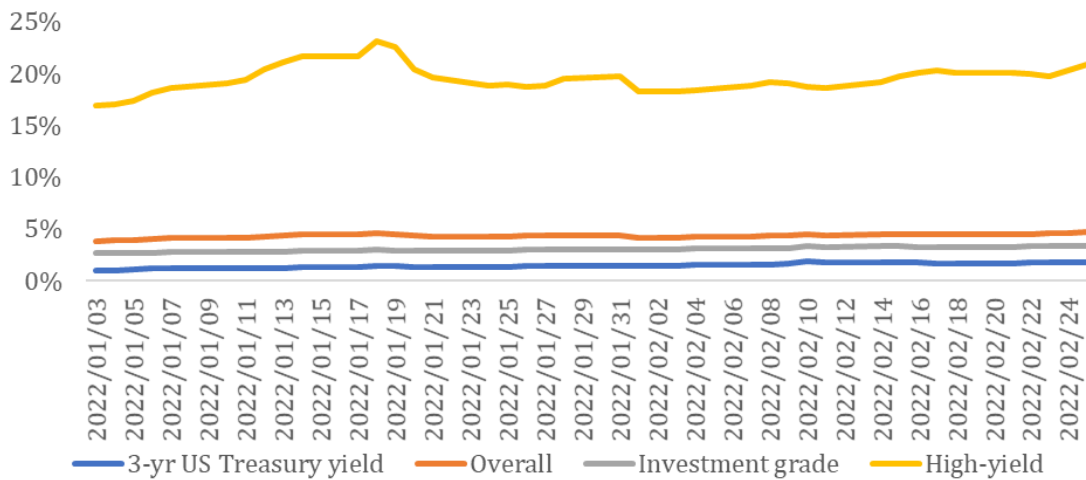
Figure 5 : YTD return on Markit IBoxx Chinese USD bond index



Sources: Bloomberg, CCX research

As of February 25, the yield-to-worst of Chinese dollar bonds increased by 24bp to 4.67% from last Friday, of which investment grade bond index increased by 14bp to 3.36%. High-yield bond index increased by 80bp to 20.83%.

Figure 6 : Yield-to-worst of Bloomberg Barclays Chinese USD bond index



Sources: Bloomberg, CCX research

<sup>1</sup> Year-to-date return measures the return since January 3, 2022

## Rating Action: Several real estate companies were downgraded

From February 21 to February 25, rating agencies took positive rating actions on 4 Chinese issuer, and took negative rating action on 13 Chinese issuers.

Table 2 : Credit rating changes of cross-border bond market (20220221-20210225)

	Entity	Sector	Current Rating			Previous Rating			Rating Agency	Reason of Change
			Entity Rating	Outlook	Date	Entity Rating	Outlook	Date		
<b>International Rating:</b>										
Upgrade	China Baowu Steel Group Co Ltd	Materials	A	POS	2022/2/22	A	Stable	2021/2/24	Fitch	Decreasing leverage
	Baoshan Iron & Steel Co Ltd	Materials	A	POS	2022/2/22	A	Stable	2021/2/24	Fitch	Decreasing leverage
	Baosteel Resources International Co Ltd	Materials	A-	POS	2022/2/22	A-	Stable	2021/2/24	Fitch	Parent company's rating outlook adjusted to positive
	China Huarong Asset Management Co Ltd	financial	BBB+	STABLE	2022/2/23	BBB	RWN	2021/8/23	Fitch	Completion of its recapitalisation
Downgrade	Zhenro Properties Group Ltd	Real Estate	Caa2	NEG	2022/2/21	B3	NEG	2022/2/14	Moody's	Heightened default risk
	Zhenro Properties Group Ltd	Real Estate	C	-	2022/2/21	B	RWN	2022/2/15	Fitch	Distressed Debt Exchange
	VNET Group, Inc	Communications	B	STABLE	2022/2/21	B+	Stable	2021/11/8	Fitch	Medium-term debt financing cost higher than expected
	Ronshine China Holdings Ltd	Real Estate	B-	NEG	2022/2/22	B	NEG	2021/11/1	Fitch	Increasing uncertainty over refinancing of its capital market maturities
	Haidilao International Holding Ltd	Consumer Discretionary	BBB	RWN	2022/2/22	BBB	NEG	2021/8/30	S&P	Increasing uncertainty on its ability to restore leverage
	Seazen Holdings Co Ltd	Real Estate	Ba1	NEG	2022/2/22	Ba1	Stable	2021/1/22	Moody's	Shrinking property sales and weakening credit metrics
	Jingrui Holdings Ltd	Real Estate	Caa2	NEG	2022/2/23	B3	NEG	2022/1/25	Moody's	Heightened liquidity risk
	Shimao Property Holdings Ltd	Real Estate	Caa1	NEG	2022/2/23	B2	RWN	2022/1/10	Moody's	Weak debt-repayment ability
Chongqing Nan'an	Chengtou	BBB-	NEG	2022/2/23	BBB-	Stable	2021/8/30	S&P	Weakening	

	Urban Construction & Development (Group) Co Ltd									budgetary performance of the government
	E-House (China) Enterprise Holdings Ltd	Real Estate	CCC	NEG	2022/2/23	B	NEG	2021/10/13	S&P	Heightened Repayment Pressure Amid Depleting Liquidity
	E-House (China) Enterprise Holdings Ltd	Real Estate	CCC	NEG	2022/2/24	B	Stable	2021/12/31	Lianhe Global	Significantly heightened refinancing risk
	Ronshine China Holdings Ltd	Real Estate	B+	NEG	2022/2/24	BB	Stable	2021/9/13	Pengyuan International	Higher refinancing risk amid a tight credit market
	Redco Properties Group Ltd	Real Estate	B	RWN	2022/2/25	BB-	Stable	2022/1/7	Lianhe Global	Significantly heightened refinancing pressure
<b>Domestic Rating:</b>										
Downgrade	Yango Group Co Ltd	Real Estate	BB	NEG	2022/2/24	BBB	NEG	2022/2/7	Dagong	Weak debt-repayment ability
	Jiangsu Zhongnan Construction Group Co Ltd	Real Estate	AA	NEG	2022/2/24	AA+	Stable	2021/6/25	Golden Credit	Expected declining performance in 2021 and high debt maturities

Sources: Bloomberg, Wind, CCX research

## Panda Bond Market: BMW Finance and China Mengniu issued 3 bonds altogether this week

On February 21, Type I and Type II of the first series of 2022 BMW Finance N.V. Medium Term Note was successfully issued in the China Interbank Market. Type I bond has a tenor of 2 years, raising RMB1.5 billion, at the coupon rate of 2.89%; Type II bond has a tenor of 3 years, raising RMB2.5 billion, at the coupon rate of 3.10%. CCXI assigned AAA to the issuer.

On February 24, the second series of 2022 China Mengniu Dairy Company Limited Super & Short-term Commercial Paper was issued in the China Interbank Market, raising RMB2.5 billion, with a tenor of 90 days, at a coupon rate of 2.33%. CCXI assigned AAA to the issuer.

**Table 3 : New issuance of Panda Bond in the Year 2022 (20220103-20220225)**

Issuer	Amount (RMB billion)	Coupon (%)	Issue date	Maturity	Tenor	Bond Type	Issue Market	Local Rating Agency
BMW Finance N.V.	2.5	2.33	2022/2/24	2022/5/25	0.25	SCP	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	1	3.1	2022/2/21	2025/2/21	3.00	MTN	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	1.5	2.89	2022/2/21	2024/2/21	2.00	MTN	China Interbank Market	China Chengxin
China Traditional Chinese	1	2.4	2022/2/16	2022/11/15	0.75	SCP	China Interbank	China



Medicine Co. Limited							Market	Chengxin
New Development Bank	3	2.45	2022/1/27	2025/1/27	3	International Institution Bond	China Interbank Market	China Chengxin
China Mengniu Dairy Company Limited	2.5	2.35	2022/1/24	2022/4/22	0.24	SCP	China Interbank Market	China Chengxin
Beijing Enterprises Water Group Limited	1.5	3.38	2022/1/21	2026/1/21	5	MTN	China Interbank Market	Shanghai Brilliance Rating
Beijing Enterprises Water Group Limited	1	2.97	2022/1/21	2023/1/21	5	MTN	China Interbank Market	Shanghai Brilliance Rating
China Everbright Water Limited	1	2.50	2021/12/16	2022/6/12	0.4	SCP	China Interbank Market	Shanghai Brilliance Rating
Shenzhen International Holdings Limited	1	2.95	2022/1/10	2028/1/15	6	Corporate Bond	Shenzhen Exchange Market	Lianhe Credit Rating

Sources: Bloomberg, CCX research

## Issuer Analysis: CHINA GAS HOLDINGS LIMITED

**Issuer profile:** China Gas Holdings Limited was registered and established by the Bermuda Company Registration Office on August 22, 1995, and was listed on the main board of the Hong Kong Stock Exchange on October 20, 1995 (stock code: 00384.HK). As of the end of the FY2020/21, Beijing Enterprises Holdings Group Co., Ltd., a wholly state-owned company funded and established by the Beijing Municipal People's Government, is the company's largest shareholder. Since the company's equity is relatively scattered, the company does not have a controlling shareholder and actual controller. China Gas is a cross-regional natural gas operation service provider, mainly engaged in investment, construction, operation, and management of urban and township gas pipeline infrastructure, gas terminals, storage and transportation facilities and gas logistics systems in China, delivering natural gas and liquefied gas to residents and industrial and commercial users. LPG, builds and operates compressed natural gas and liquefied natural gas filling stations, develops and applies related technologies such as oil, natural gas and liquefied petroleum gas. The company is currently one of the largest cross-regional gas operation service providers in China, and a leading enterprise in the field of urban pipeline gas distribution in China. The natural gas industry in which the company operates has good prospects for development; the company has a relatively large scale advantage. Due to the franchise right of China's pipeline gas business, the company in the region is a natural monopoly. The company has established long-term cooperative relations with upstream suppliers, with stable the gas source. During the epidemic, the company's business scale was further expanded, and its profitability is high. However, at the same time, notice should be paid to the fact that the company's profitability is easily affected by macro-policies, that its equity stability is relatively weak, that contract assets and receivables face occupation of funds, and that major production safety liability accidents in its non-wholly-owned subsidiaries may have a negative impact on the company's credit.

**Issuance history:** China Gas Holdings Limited is one of the earlier issuers in the Panda Bond Market. It entered the Panda Bond Market in early 2016 and issued a total of 7 bonds, raising RMB10.3 billion altogether. There are 3 corporate bonds issued in the Exchange Bond Market and four Medium-term Notes issued in the China Interbank Market. The average coupon rate is 4.06%, and the average spread is 107bp. Usage of proceedings are mainly for the repayment of the interest-bearing debts of the issuer and its subsidiaries.

**Table 4: Historical Issuance of China Gas Holdings Limited in the Panda Bond Market**

No.	Issue date	Maturity	Tenor	Amount (RMB billion)	Coupon (%)	Spread (BP)	Usage of Proceeds	Bond Type	Issue Market
1	2020/3/10	2025/3/10	5	1	3.38	92	To repay the interest-bearing debts of the issuer and its subsidiaries and supplement the working capital of the issuer and its subsidiaries	MTN	China Interbank Market
2	2018/12/7	2023/12/7	5	1.3	4.15	113	To repay the domestic interest-bearing debts of the issuer and its subsidiaries	MTN	China Interbank Market
3	2018/10/24	2023/10/24	5	2	4.38	101	To repay the domestic interest-bearing debts of the issuer and its subsidiaries	MTN	China Interbank Market
4	2018/9/11	2023/9/11	5	1.5	4.50	99	To repay the interest-bearing debts of the issuer and its subsidiaries	Corporate Bond	Exchange Market
5	2017/8/3	2020/8/3	3	1.5	4.75	128	To repay the domestic debt of the issuer's subsidiary	MTN	China Interbank Market
6	2016/10/27	2021/10/27	5	2	3.05	51	To repay interest-bearing debt	Corporate Bond	Exchange Market
7	2016/1/13	2019/1/13	3	1	4.20	168	To repay interest-bearing debt	Corporate Bond	Exchange Market

Sources: Bloomberg, CCX research

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