Credit Rating Report on Inner Mongolia High-grade Highway Construction and Development Co., Ltd.'s 2019-1 Medium-term Notes

Ratings:
Long-term credit rating of the issuer: AA$^+$
Credit rating of this medium-term notes (MTN): AA$^+$
Rating outlook: Stable
Date of rating: July 16, 2018

Issuance size of this MTN: CNY 1 billion
Maturity term of this issue: 5 years
Debt servicing method: Annual interest payment, repayment of principal at maturity.
Use of proceeds: Refinancing of financial institution loans

Key Financial data

Item/Fiscal Year	2015	2016	2017	1Q2018
Cash assets (CNY 100mn)	178.91	217.66	256.34	171.90
Total assets (CNY 100mn)	1061.32	1099.36	1128.09	1053.42
Owners' equity (CNY 100mn)	173.60	202.73	214.67	213.14
Short-term liabilities (CNY 100mn)	42.05	126.09	125.29	116.44
Long-term liabilities (CNY 100mn)	675.90	618.35	634.13	639.67
Total liabilities (CNY 100mn)	717.95	744.44	759.41	756.11
Revenue (CNY 100mn)	59.59	55.67	61.39	11.49
Total profit (CNY 100mn)	-18.88	2.98	2.78	-1.51
EBITDA (CNY 100mn)	29.32	36.07	37.34	--
Net cash flow from operating activities (CNY 100mn)	24.04	23.74	19.61	-0.15
Operating profit margin (%)	25.60	69.91	65.22	70.45
ROE (%)	-10.98	1.31	1.14	--
Debt-to-asset ratio (%)	83.64	81.56	80.97	79.77
Total debt capitalization ratio (%)	80.53	78.60	77.96	78.01
Current ratio (%)	105.10	84.46	106.04	104.08
Operating cash coverage ratio (%	13.05	8.78	7.39	--
EBITDA-to-interest cover (x)	0.84	1.07	1.07	--
Total liabilities/EBITDA (x)	24.49	20.64	20.34	--

Note: 1. The 2015 financial data is based on the data at the beginning of 2016;
2. The interest-bearing portion of the Company's other current liabilities is included in the short-term liabilities.
3. The interest-bearing portion of long-term payables is included in the long-term liabilities.
4. Financial data of 1Q 2018 is unaudited.

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Rationale

China Lianhe Credit Rating Co., Ltd.'s (hereinafter referred to as "Lianhe Ratings") rating on Inner Mongolia High-grade Highway Construction and Development Co., Ltd. (hereinafter referred to as the "Company") reflects its advantages in regional competitiveness and government support as a large state-owned company engaging in high-grade highway operations approved by the government of Inner Mongolia Autonomous Region. At the same time, Lianhe Ratings also note the constraining factors, such as the Company's relatively high indebtedness, serious erosion of profits by high financing costs, and relatively high pressure on financing activities in the future.

Inner Mongolia Autonomous Region has a strong demand for ground freight transportation, which provides steady traffic flow to the roadways operated by the Company. The sound and stable operations of its high-grade roadway business continue to bring stable cash inflows to the Company. The size of income and profitability of its other business segments continue to increase with potential for growth. Lianhe Ratings' rating outlook for the Company is stable.

The cash flows and EBITDAs from the Company's operating activities offer a high degree of certainty for this MTN. Lianhe Ratings concludes that the risk of a default on this MTN is very low, based on a comprehensive assessment of the issuer's long-term credit profiles and ability to repay.

Strengths

1. Highway is regarded as a national economic infrastructure industry and is the Chinese government's primary investment area in the recent years. The sector has a good development prospect.
2. The Company is responsible for the management of most of the major expressways and related roadways in Inner Mongolia Autonomous Region. It has formed a relatively complete high-grade highway transportation network in the

main economic belts of the region with the advantages of large scale and strong competitive edge.

3. According to the documents approved by the Transportation Department of Inner Mongolia Autonomous Region, the Company has suspended the depreciation (for accounting purpose) of its toll free or toll exempted roadways since January 2016. The policy on suspension of depreciation will help improve the Company's accounting profit and lower the asset-liability ratio.
4. The Company continues to receive construction-specific funds allocated by the State and Inner Mongolia Autonomous Region.
5. The income and profitability from other businesses related to the Company's high-grade road operations continue to increase with development potential, which will help improve the Company's operating capacity.

Concerns

1. The Company has a high indebtedness which erodes its profit by financing costs.
2. The Company plans for large capital expenditures, coupled with the needs to service the existing debt which put it under high financing pressure.

Note: This is the English translation of the Credit Rating Report originally made out in Mandarin, which would prevail if there should be any discrepancy between the English version and the Mandarin version.