

RATING REPORT**Xiamen Xiangyu Group Corporation**

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'Very Strong' Status, Ownership and Control: Xiamen Xiangyu Group Corporation is wholly owned by the Xiamen State-owned Assets Supervision and Administration Commission (SASAC) and directly controlled and supervised by the municipal government and Xiamen SASAC, which appraise management's performance, supervise and approve the company's financing plans, and audit and monitor its operational and financial performance. The government also appoints the company's board members and senior management.'

'Strong' Support Record and Expectations: Xiangyu Group continues to operate under supportive policies and frameworks; capital injections from Xiamen SASAC amounted to CNY100 million in 2018, CNY100 million in 2019 and CNY121 million in 1H20, and were mainly to support the free-trade zone's development. Fitch Ratings expects the supportive framework and government support to continue in the medium term in light of the company's strategic importance in Xiamen.'

'Moderate' Socio-Political Implications of Default: Fitch believes Xiangyu Group will be allowed to continue its policy business even after a default. We expect substantial government support via administrative or fiscal measures to ensure the company's continued operational viability. The government may also appoint other policy government-related entities (GRE) to provide substitute services if necessary.'

'Strong' Financial Implications of Default: Xiangyu Group raises funds and invests in urban development as well as supply-chain development for the free-trade zone. A government failure to provide timely support, leading to the company's default, would suggest the government is facing financial difficulties. It would therefore weaken the government's credibility and curtail borrowing options for the government and other GREs.

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