

**Lianhe Global has assigned ‘A-’ global scale Long-term Issuer and Issuance Credit Rating to Shaoxing City Investment Group Limited and its proposed USD bonds; Issuer Rating Outlook is Stable**

HONG KONG, 11 August 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Shaoxing City Investment Group Limited (“SCIG”). The Outlook is Stable.

At the same time, Lianhe Global has assigned ‘A-’ global scale Long-term Issuance Credit Rating to the proposed senior unsecured USD bonds (“the USD bonds”) to be issued by SCIG.

SCIG intends to use the net proceeds from this offering for refinancing its existing indebtedness and for general corporate purposes.

**Key Rating Rationales**

The USD Bonds are rated at the same level as SCIG’s global scale Long-term Issuer Credit Rating of ‘A-’ as they constitute SCIG’s unsecured and unsubordinated obligations. SCIG’s obligations for the USD bonds shall at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

The Issuer Credit Rating reflects a high possibility that Zhejiang’s Shaoxing Municipal Government would provide strong support to SCIG if needed. This mainly considers the Shaoxing Municipal Government’s 90% ownership of SCIG, the high importance of SCIG to Shaoxing in the utilities (gas and water) infrastructures and services, as well as urban infrastructure and social-housing construction area, and the strong linkage between the Shaoxing Municipal Government and SCIG, including management supervision, ongoing operational and financial support. In addition, the Shaoxing Municipal Government may face significant negative impact on its reputation and financing activities should SCIG encounter any operational and financial difficulties.

The Stable Outlook reflects our expectation that SCIG’s strategic importance would remain intact while the Shaoxing Municipal Government will continue to ensure SCIG’s stable operation.

**Strong Linkage with the Shaoxing Municipal Government:** Shaoxing Municipal Government, via Shaoxing State-owned Assets Supervision and Administration Commission (SASAC), holds 90% of SCIG, while the remaining 10% of SCIG’s shares was owned by Zhejiang Finance Development Co., Ltd., a wholly owned entity of Zhejiang Provincial Department of Finance, to subsidize the provincial Social Security Fund.

**High Strategic Importance of SCIG to the Local Government and Economy:** SCIG is an important LGFV in Shaoxing in terms of urban infrastructures and social-housing construction,

gas and water infrastructure and services entity in the city. SCIG is responsible for the majority of the urban-related infrastructure projects such as National Highway 329 renovation projects, Olympic Center project and other municipal public projects. It is the only natural gas infrastructure and services provider in the urban area of Shaoxing.

**Government Supervision and Strategic Alignment:** Shaoxing Municipal Government is the ultimate shareholder of SCIG and has strong control and supervision over SCIG, including the decision on its strategic development plan and supervision of its major funding decisions. In addition, Shaoxing SASAC reviews the audit report of the operation of SCIG by an external auditor. SCIG's business operation and development have been aligned with the government's economic and social policies.

**Ongoing Government Support:** SCIG received continuing financial support from Shaoxing Municipal Government in 2018 to 2020. Government subsidies were RMB1.47 billion, RMB1.43 billion and RMB1.52 billion, and represented c. 22.2%, 16.7% and 20.6% of SCIG's revenue in 2018, 2019 and 2020, respectively. Additionally, Shaoxing SASAC transferred 51% equity of Shaoxing City Public Utilities Group Co., Ltd. to SCIG free of charge in August 2018.

**Moderate Standalone Financials:** In 2020, SCIG realized total revenue of c. RMB7.4 billion, of which income from gas sales accounted for the biggest share. SCIG's gross margin showed a steady upward trend during 2018 to 2020. The main sources of its gross profits were from gas sales, and other businesses such as non-ferrous metal sales. Gross profits were affected, to a lesser extent, by those of water sales and sewage treatment as well. The negative gross margin of these two businesses was mainly due to tariffs restriction by the government in the previous years. However, tariffs for industrial sewage treatment have been adjusted upwards since May 2021, which would have the positive impact on the business growth of SCIG.

SCIG's financial leverage (total liabilities to assets) remained stable at a moderate level of c. 59% between 2018 to end-March 2021. SCIG has access to financing channels such as bank loans, syndicated loans and issued bonds etc. to support its debt repayment and business operation.

**Economic and Fiscal Strength Underpin Shaoxing:** With the continuous economic growth of GDP and fixed asset investment, Shaoxing's urban economic strength has been gradually improving, and its industrial structure is gradually optimized. Shaoxing's GDP reached RMB600.1 billion in 2020, which was ranked 4<sup>th</sup> in Zhejiang in the same period. The industrial structure of Shaoxing was 3.6% primary sector, 45.2% secondary sector and 51.2% tertiary sector in 2020, and the contribution from tertiary sector in 2020 was 2.7 percentage points higher than that in 2019.

Shaoxing's budgetary revenue is mainly derived from the stable tax revenue, which accounted for approximately 80% of budgetary revenue from 2018 to 2020. The government fund income increased rapidly in the past two years mainly from land sales. Shaoxing's debt ratio (i.e. total government debt divided by aggregate revenue) was at c. 81% and 86% at end-2019 and end-2020, respectively. At end-2020, Shaoxing's total outstanding debt increased by c. 20%

to RMB124.8 billion compared with that at end-2019, including RMB44.2 billion of general obligations and RMB80.6 billion for special projects.

### **Rating Sensitivities**

We would consider downgrading SCIG's rating if (1) there is perceived weakening in support from Zhejiang's Shaoxing Municipal Government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Shaoxing Municipal Government's ownership of SCIG, or (3) there is a downgrade in our internal credit assessment on the Shaoxing Municipal Government.

We would consider upgrading SCIG's rating if there is an upgrade in our internal credit assessment on the Shaoxing Municipal Government.

Any rating action on SCIG's rating would result in a similar rating action on the USD Bonds.

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

### **Rating Methodology**

The principal methodology used in this SCIG's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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