

Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhongyuan Asset Management Co., Ltd.

HONG KONG, 13 July 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Zhongyuan Asset Management Co., Ltd. (“Zhongyuan AMC” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Henan provincial government would provide strong support to Zhongyuan AMC if needed, in light of its majority ownership of Zhongyuan AMC, Zhongyuan AMC’s strategic position as the major AMC of Henan and the strong linkage between the Henan provincial government and Zhongyuan AMC including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Henan provincial government may face significant negative impact on its reputation, business and financing activities should Zhongyuan AMC encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Zhongyuan AMC’s strategic importance would remain intact while the Henan provincial government will continue to ensure Zhongyuan AMC’s stable operation.

Key Rating Rationales

Henan Government’s Major Ownership: The Department of Finance of Henan Province is the controlling shareholder of Zhongyuan AMC with a direct and indirect holding of 57% stake. Moreover, the Finance Bureau of Zhengzhou holds a 15% stake in Zhongyuan AMC. Zhongyuan AMC was established in August 2015, with an initial registered capital of RMB3 billion. After several capital injections, both the registered capital and paid-in capital of Zhongyuan AMC were increased to RMB5 billion at end-2021.

High Strategic Importance to Henan Province: As the only local AMC directly managed by the Department of Finance of Henan Province, Zhongyuan AMC adopted the “One Body, Two Wings” business strategy with refocusing on distressed asset management as its primary business, supplemented by alternative asset management and integrated financial services businesses. In the future planning of the Henan provincial government, Zhongyuan AMC will continue to play an important role in the province’s financial stability, carry out the policies designated by the Henan provincial government to support the local economic development and undertake the implementation of the reform of financial institutions in Henan province.

Government Supervision and Strategic Alignment: The Henan provincial government has strong control and supervision over Zhongyuan AMC, including control of the board of directors, senior management appointments and major strategic, investing and financing plans.

Zhongyuan AMC's strategic planning and development have been aligned with the local government's economic and social policies.

Ongoing Government Support: Zhongyuan AMC has received strong support from the local government mainly in the form of capital injections. Following the increase of both the registered capital and paid-in capital to RMB5 billion, the Henan provincial government approved an additional capital injection of RMB4.3 billion to Zhongyuan AMC on 17 December 2021, which was included as capital reserve of Zhongyuan AMC at end-2021. Moreover, according to the local government's planning, the government intends to increase the registered capital of Zhongyuan AMC to RMB10 billion by end-2022. We expect the Henan provincial government to continue increasing its controlling ownership of Zhongyuan AMC from the current level by improving the company's shareholder structure. We believe Zhongyuan AMC is likely going to receive timely government support.

Moderately Weak Financials: Zhongyuan AMC's financial leverage as measured by total liabilities/total assets declined gradually from the peak of 84.9% in 2019 to 74.4% in 2021, before the acquisition of financial distressed assets lifted its financial leverage to 79.5% at end-March 2022. Zhongyuan AMC had c. RMB1.5 billion of total cash (including restricted cash of RMB455 million) at end-March 2022, compared with its debt due within one year of c. RMB21.6 billion. Having said that, Zhongyuan AMC had an unused credit line of RMB28.8 billion at end-March 2022, along with unused onshore and USD bond issuance quotas of RMB7 billion and USD500 million, respectively. Moreover, the company had stocks of listed companies with a book value of RMB c. 3.1 billion at end-March 2022. Also, Zhongyuan AMC has access to multiple financing channels, including bank borrowings, onshore and offshore bond issuance, etc.

Moderate Economic and Fiscal Condition of Henan Province: The GDP of Henan grew by 6.3% year-on-year to RMB5,888.7 billion in 2021, which was ranked 5th among all provinces in China in terms of GDP. The economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 41.3% and 49.1% of the GDP in 2021, respectively. Similarly, Henan's GDP per capita and disposable income per capita grew by 7.3% and 8.1% year-on-year in 2021, respectively.

Henan's aggregate fiscal revenues were mainly derived from transfer payment and budgetary revenue, with less reliance on the relatively volatile government-managed fund income. Henan's tax revenue maintained at c. 65%-70% of its budgetary revenue in the past few years. Henan's debt level increased in the past three years. However, the gap between budgetary expenditure and budgetary revenue narrowed in 2021, given the growth rate of the budgetary expenditure was lower than that of budgetary revenue.

Rating Sensitivities

We would consider downgrading Zhongyuan AMC's rating if (1) there is perceived weakening in support from the Henan provincial government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the

Henan provincial government's ownership of Zhongyuan AMC, or (3) there is a downgrade in our internal credit assessment on the Henan provincial government.

We would consider upgrading Zhongyuan AMC's rating if (1) there is strengthened support from the Henan provincial government, or (2) there is an upgrade in our internal credit assessment on the Henan provincial government.

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 Zhongyuan AMC's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website 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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