

**Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhangzhou Jiulongjiang Group Co., Ltd.**

HONG KONG, 31 August 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Zhangzhou Jiulongjiang Group Co., Ltd. (“Jiulongjiang Group” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Zhangzhou Municipal People’s Government (“Zhangzhou government”) would provide strong support to Jiulongjiang Group if needed, in light of its 90% ownership of Jiulongjiang Group, Jiulongjiang Group’s strategic position as the major state-owned capital investment and operation entity of Zhangzhou and the strong linkage between the Zhangzhou government and Jiulongjiang Group, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Zhangzhou government may face significant negative impact on its reputation, business and financing activities should Jiulongjiang Group encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Jiulongjiang Group’s strategic importance would remain intact while the Zhangzhou government will continue to ensure Jiulongjiang Group’s stable operation.

**Key Rating Rationales**

**Zhangzhou Government’s Ownership and Strong Supervision:** The Zhangzhou government has 90% ownership of Jiulongjiang Group via the State-owned Assets Supervision and Administration Commission of the Zhangzhou government (“Zhangzhou SASAC”). The other 10% stake is held by the Department of Finance of Fujian Province. The Zhangzhou government also has strong control and supervision over Jiulongjiang Group, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

**Strategic Importance and Strategic Alignment:** Jiulongjiang Group, as the largest LGFV in Zhangzhou, is the major state-owned capital investment and management entity that is mainly responsible for industrial projects investment and infrastructure construction in Gulei Port Economic Development Zone (“Gulei Port Zone”) and Yuanshan High-Tech Zone, to support the local economic and industrial development. The company’s business operation and development have been aligned with the government’s economic and social policies. In the future planning of the Zhangzhou government, Jiulongjiang Group will continue to be in charge of state-owned capital investment and operation to support the local economy.

**Ongoing Government Support:** Jiulongjiang Group has received supports from the Zhangzhou government for its business operation, mainly including capital injections, government subsidies, financial support, and it also benefits from preferential tax and/or tax exemption policies in encouraged high-tech industries. Jiulongjiang Group received capital injection of RMB2 billion in 2019 when the Zhangzhou SASAC approved the company to use the capital reserves to increase the paid in capital by RMB2 billion. Jiulongjiang Group has also received solid and stable financial subsidies from the local government, including project-related subsidies in Gulei Port EDZ and interest subsidies from the municipal financial pooling fund. We believe Jiulongjiang Group will likely receive government support in the form of operational and/or financial subsidies in the future.

**Moderate Financials with Relatively Tight Liquidity:** Jiulongjiang Group's financial leverage as measured by total liabilities/total assets has been at a relatively high level at c. 63%-65% in the past three years. We expect its financial leverage to remain below 70% considering the government's supervision. The enhanced profit generating capacity guaranteed by the substantial demand for the company's pharmaceutical and bearing products of its two listed subsidiaries, as well as the persistent returns from the fixed investment made the company's revenue grow significantly in past three years with relatively high gross margins.

At end-March 2022, Jiulongjiang Group had unrestricted cash of approximately RMB10.2 billion, and yet the total debt of the company was approximately RMB64.6 billion, of which short-term debt represented 48.7% of the total debt. However, Jiulongjiang Group has wide access to financing channels and established relationships with banks.

**Moderate Economic and Fiscal Conditions of Zhangzhou:** As a seaside city, Zhangzhou provides a network of roadways to access seaports for the central regions and benefits from the development of the West Coast Economic Zone. Zhangzhou's GDP reached RMB502.5 billion, representing a year-over-year growth rate of 7.7%, in 2021. The economic growth was mainly fueled from the secondary and tertiary industries.

Zhangzhou's aggregate fiscal revenues were mainly derived from budgetary revenue. The tax revenue accounted for approximately 65%-70% of its budgetary revenue in the past three years. Zhangzhou's fiscal deficit has been at a relatively high level. The fiscal self-sufficiency rate of Zhangzhou was relatively low, leading it to continue receiving subsidies from higher government authorities.

### **Rating Sensitivities**

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

We would consider upgrading Jiulongjiang Group's rating if (1) there is strengthened support from the Zhangzhou government, or (2) there is an upgrade in our internal credit assessment on the Zhangzhou 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 Jiulongjiang Group'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](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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