

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shanghai Zhuanghang Economic Development Co., Ltd.

HONG KONG, 31 March 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shanghai Zhuanghang Economic Development Co., Ltd. (“SZED” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Fengxian District of Shanghai City (“Fengxian government”) would provide moderately strong support to SZED if needed, in light of SZED’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure construction in Zhuanghang Town (“Zhuanghang”) of Fengxian District (“Fengxian”), and the linkage between the Fengxian government and SZED, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support, etc. In addition, the Fengxian government may face negative impact on its reputation and financing activities if SZED encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: SZED was established in August 2009. The Zhuanghang government, through several village committees and other state-owned entities, holds 100% ownership of SZED. Zhuanghang is one of the eight towns under Fengxian. The Fengxian government has strong supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Fengxian government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: SZED is an important state-owned entity for infrastructure construction in Zhuanghang that mainly undertakes the construction of municipal projects and landscaping projects. SZED has a leading position in infrastructure construction in the region and it plays an important role for urban construction and development. The development strategy of the company is aligned with the development plan of the local government, aiming to follow by the “14th Five-Year Plan” of the local government and to promote local urban and rural construction and development.

Ongoing Government Support: As an important state-owned entity for infrastructure construction in Zhuanghang, the company continuously received government support, including policy support, project and capital support, etc. In 2012, the registered and paid-in

capital of the company both increased from the initial of RMB1 million to RMB25 million, mainly increased by capital injection from shareholder. In addition, the company also continuously received subsidies from the local government. Given the company's function and importance, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

SZED's Financial and Liquidity Position: SZED's total asset grew steadily and the asset structure was relatively stable in the past few years. At end-2022, SZED's assets were mainly composed of land, construction projects, receivables and investment properties. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, thus, the company's overall asset liquidity was moderately weak. The financial leverage ratio (total liabilities/total assets) of SZED was 31.9% at end-2022. The company mainly relies on external financing to support its capital expenditure. At end-2022, the company's adjusted debt was c. RMB5.1 billion, of which short-term debt and long-term debt accounted for 20.1% and 79.9% of its total debt, respectively, and the company's short-term repayment pressure was relatively small.

Economy and Fiscal Condition of Fengxian : Fengxian is a district of Shanghai and it is located in the south of Shanghai. Fengxian is the southern gate and important transportation hub of Shanghai connecting with Shanghai and Zhejiang coastal areas. Its GDP reached c. RMB137.1 billion in 2022, representing a year-on-year growth rate of 0.4%. The aggregate fiscal revenue of the Fengxian government was mainly derived from the budgetary revenue and government fund income. In 2022, affected by the value-added tax (VAT) credit refund policy, the budgetary revenue of Fengxian was c. RMB22.2 billion, and the percentage of tax revenue decreased to 86.6% from 91.7% in 2020. The financial self-sufficiency rate of Fengxian was insufficient and it recorded budget deficit of 51.4% in 2022. Nevertheless, Fengxian continuously received subsidies from higher government. The government fund income of Fengxian increased by 13.6% to RMB15.8 billion in 2022. At end-2022, the Fengxian government's outstanding debt was c. RMB49.5 billion, including RMB31.2 billion of general obligations and RMB18.3 billion of special debt.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 SZED's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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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