

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Huzhou Moganshan High-tech Group Co., Ltd.**

HONG KONG, 11 April 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Huzhou Moganshan High-tech Group Co., Ltd. (“HMHG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Deqing County, Huzhou City (“Deqing government”) would provide strong support to HMHG if needed, in light of its full ownership of HMHG, HMHG’s strategic importance as the major local investment and development company (“LIDC”) that is responsible for infrastructure construction and land development in Deqing County, Huzhou City (“Deqing”), especially in Mogan Mountain of Huzhou Hi-tech Industry Development Zone (“MHZ”), and the linkage between the Deqing government and HMHG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Deqing government may face significant negative impact on its reputation and financing activities if HMHG encounters any operational and financial difficulties.

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

**Key Rating Rationales**

***Deqing Government’s Ownership and Supervision:*** The Deqing government indirectly holds the full ownership of HMHG through the Mogan Mountain of Huzhou Hi-tech Industry Development Zone Management Committee (“MHZ MC”), and is the actual controller of the company. The Deqing government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions, via the MHZ MC. In addition, the Deqing government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

***Strategic Importance to Deqing and Strategic Alignment:*** HMHG is an important LIDC in Deqing, especially in MHZ, that is primarily responsible for the infrastructure construction, land development and industrial park construction and operation in MHZ with strong franchised advantages. It is the core platform designated by the MHZ MC to implement its infrastructure construction and state-owned asset management plans, and it has undertaken and completed a number of strategically important projects in the region. As the sole entity for performing government-related functions in MHZ, HMHG plays an important role in promoting the

economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

**Ongoing Government Support:** HMHG received operational and financial support from the government. HMHG had received a total subsidy amount of c. RMB8.2 billion from 2019 to the first nine months of 2022, mainly including daily operating subsidies. The Deqing government, through the MHZ MC, continued to inject cash, equity and land improvement projects into HMHG to expand its asset size and to diversify its business. MHZ MC will repurchase some infrastructure and administrative area construction projects and provide policy supports to HMHG to ensure its business operation. Given the franchise advantage in infrastructure construction and land development in MHZ, HMHG has advantages to obtain land resources and major projects. We believe HMHG is likely going to receive timely government support in the form of operational and/or financial subsidies to support its daily business operation.

**HMHG's Financial Matrix and Liquidity Position:** HMHG's total assets showed a continuous growth trend in the past years and reached RMB88 billion at end-September 2022, mainly due to the increase in inventories resulting from its infrastructure construction and land development projects. Although the company has a large proportion of current assets, its overall assets are less liquid due to a high proportion of development costs and receivables. HMHG's financial leverage (total liabilities to total assets) was 62.4% and its adjusted debt increased to c. RMB50.7 billion at end-September 2022. The liquidity of HMHG was tight. HMHG had a cash balance and unused credit facilities of c. RMB8.9 billion (of which RMB1.1 billion was restricted cash) and RMB3.1 billion at end-September 2022, respectively, compared with its debt due within one year of c. RMB14.7 billion. Besides, HMHG has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Deqing:** Deqing is a county under the jurisdiction of Huzhou City, Zhejiang Province. Deqing recorded an economic growth in 2022, achieving a GDP of c. RMB65.8 billion, with a year-on-year growth of 3.8%. The growth rate has slowed down compared to previous years. The aggregate fiscal revenue of the Deqing government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Deqing government reached c. RMB8 billion, with a year-on-year increase of 0.4% (net of the influence of value-added tax credit refunds). The budget expenditures increased to RMB10.2 billion in 2022, resulting in an increase in its fiscal deficit ratio. Meanwhile, the government fund income also decreased slightly from 2021 to c. RMB10.7 billion. Besides, the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Deqing government increased from 51.2% in 2021 to 70.9% in 2022. MHZ is a national-level high-tech industrial development zone in Deqing. Its GDP and fiscal revenue have made a certain contribution to Deqing.

## Rating Sensitivities

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

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