

**Lianhe Global has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jinhua State-owned Capital Operation Co., Ltd.**

HONG KONG, 28 March 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A’ global scale Long-term Issuer Credit Rating to Jinhua State-owned Capital Operation Co., Ltd. (“JSCO” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that Jinhua Municipal People’s Government (“Jinhua government”) would provide strong support to JSCO if needed, in light of its full ownership of JSCO, JSCO’s strategic importance as the flagship local investment and development company (“LIDC”) responsible for urban development and city operation in Jinhua City (“Jinhua”), and the linkage between the Jinhua government and JSCO, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Jinhua government may face significant negative impact on its reputation and financing activities if JSCO encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Jinhua government holds 100% shares of JSCO through State-owned Assets Supervision Administration Commission of Jinhua (“Jinhua SASAC”). The Jinhua government also has strong control over the company, including appointment of the senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the Jinhua government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** In 2022, Jinhua initiated state-owned assets consolidation. Jinhua SASAC transferred an array of shares of major LIDCs in Jinhua to JSCO, making the company the Jinhua’s flagship LIDC. The company’s development plan has been aligned with the local government’s economic and social policies. It is responsible for infrastructure construction (including Jinhua-Yiwu-Dongyang Rail Transit, a key transportation project connecting Jinhua urban area, Jinyi New District, Yiwu and Donyang), primary land development, resettlement housing development, transportation and water supply in Jinhua.

**Ongoing Government Support:** JSCO has received ongoing operational subsidies from the Jinhua government since its establishment. The company received subsidies of RMB1,792 million between 2019 and September 2022 from local governments. These subsidies were

mainly to support JSCO's activities in relation to providing public goods and services. In 2022, JSCO's registered capital and paid-in capital were enlarged to RMB5 billion from RMB300 million due to the injection of LIDCs' equity.

***Economy and Fiscal Condition of Jinhua:*** Jinhua is a prefecture-level city located in the middle of Zhejiang Province, and the south wing of the Yangtze River Delta economic circle, bordering Shaoxing and Hangzhou in the north. It has a well-developed economy with counties specializing in different sectors. For example, Yiwu is known as an international small commodities center. Jinhua realized a GDP of RMB556.2 billion in 2022, representing a year-over-year growth of 2.5%, down from 9.8% in 2021. This was mainly caused by Covid's disruption during the year. Yet the city maintained a strong fixed asset investment growth of 13.5% in 2022, as the government promoted investments in transportation infrastructure, urban renewal and ecological protection projects to boost economic growth.

The Jinhua government's budgetary revenue decreased to RMB48.9 billion in 2022 from RMB49.2 billion in 2021, mainly due to the large-scale value-added tax credit refunds, a policy to support the economy. In contrast, its budgetary expenditure increased to RMB83.0 billion from RMB79.1 billion. Therefore, the Jinhua government's budget deficit was enlarged. In addition, Jinhua's government fund income, mainly generated by land sales, dropped while its government debt grew in 2022.

***JSCO's Financial and Liquidity Position:*** JSCO's asset size grew significantly by 143.4% to RMB148.3 billion at end-September 2022 from RMB60.9 billion at end-2019. This was mainly attributed to the company's active involvement in infrastructure construction, including the development of the rail transit project, and primary land development projects in Jinhua, especially in Duohu, a planned CBD. These projects usually take a protracted time to monetize owing to long construction time and potential delay payments. The weak property market had slowed land sales in Jinhua since 2022. JSCO largely relied on debts to finance its asset expansion. The company's total debts have increased sharply since 2020, from RMB27.6 billion at end-2020 to RMB63.1 billion at end-September 2022, pushing up its financial leverage, as measured by debts/capitalization, to 47.5% at end-September 2022 from 40.3% at end-2020.

The liquidity of JSCO was adequate, as the company had sizable cash on hand, and most of its debts were due more than one year. At end-September 2022, JSCO had a cash balance of c. RMB16.6 billion (including restricted cash of RMB223 million) compared with its debt due within one year of c. RMB11.0 billion. Besides, JSCO has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused bank credit line of RMB50.5 billion at end-September 2022.

## Rating Sensitivities

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

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