

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taizhou Medical City Holding Group Co., Ltd.

HONG KONG, 24 April 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Taizhou Medical City Holding Group Co., Ltd. (“TMCH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Government of Taizhou Medical High-tech Industrial Development Zone (Gaogang District) (“the District government” or “the Management Committee”) would provide strong support to TMCH if needed, in light of its full ownership of TMCH, the importance of TMCH to Taizhou Medical High-tech Industrial Development Zone (“the Medical High-tech Zone”) in infrastructure construction and state-owned assets operation and management, and the strong linkage between the District government and TMCH, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and other government support. In addition, the District government may face significant negative impact on its reputation and financing activities if TMCH encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: TMCH was established in 2014. In 2022, the shareholder of the company changed to the Management Committee, and the registered capital increased from the initial of RMB1 million to RMB5 billion. At end-September 2022, the paid-in capital of the company was RMB1 million. The Management Committee is the only shareholder and is the ultimate controller of the company. The District government has strong control and supervision over TMCH, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions, etc. In addition, the government will appoint auditors to review TMCH’s operating performance and financial position.

Strategic Importance and Strategic Alignment: TMCH is an important local investment and development company (“LIDC”) for infrastructure construction and state-owned asset operation in the Medical High-tech Zone (also known as China Medical City, “CMC”) that undertakes various businesses including project construction, state-owned asset operation, pharmaceutical business, property development and sales, as well as investment and service in the region. TMCH’s business operation and development have been aligned with the local development plan and economic and social policies. TMCH will focus on investment in bio-

pharmaceutical industry (the main industry in CMC) and maintain its diversified business portfolio to support the local economic and industrial development.

Ongoing Government Support: TMCH receives government support in the form of equity transfer from the Management Committee in April 2022. In addition, the registered capital of the company increases from RMB1 million to RMB5 billion in 2022. At end-September 2022, the paid-in capital of TMCH was RMB1 million and the rest of registered capital will be injected by the Management Committee in the future. Other support includes operational subsidies and project subsidies from the local government. TMCH has received subsidies of RMB315.6 million, RMB206.7 million and RMB150.6 million in 2019, 2020 and 2021, respectively. The subsidies mainly included operational subsidies, project subsidies, tax benefits and other development funds, etc. TMCH is expected to continue to receive support from the local government in the form of operational and financial supports, as well as policy support for regional development.

TMCH's Financial and Liquidity Position: TMCH's total assets was c. RMB56.4 billion at end-September 2022. TMCH's financial leverage (total liabilities/total assets) was moderately high at c. 67%-70% in the past few years, of which was 69.9% at end-September 2022. TMCH mainly relies on external financing for debt repayment and its business operation. The company's total adjusted debt was c. RMB36.6 billion at end-September 2022, of which short-term and long-term debt accounted for 40.9% and 59.1% of its total adjusted debt, respectively. TMCH had a cash balance of c. RMB5.0 billion (the restricted cash was c. RMB3.3 billion) and unused credit facilities of c. RMB3.9 billion at end-September 2022. TMCH has access to various channels of financing, including bank loans, syndicated loans, corporate bonds and other non-traditional financing such as trust loan, financial leasing and asset management. We believe that TMCH will continue to issue debt to repay the previous and keep its leverage below government's requirement.

Economy and Fiscal Condition of the Medical High-tech Zone: The Medical High-tech Zone is located in the middle of Taizhou and is a national high-tech zone in China. In 2021, the Medical High-tech Zone and Gaogang District has merged into one district to promote the development of this region. The GDP of the Medical High-tech Zone reached c. RMB110.7 billion, representing a year-on-year growth rate of 11% in 2021. GDP per capita and disposable income per capita of the Medical High-tech Zone was c. RMB229,000 and c. RMB45,000 in 2021, respectively.

The aggregate fiscal revenue of the Medical High-tech Zone was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the region reached c. RMB10.1 billion, representing a year-on-year growth of 11.8% in 2021, of which tax revenue accounted for 76.5% of its budgetary revenue. The fiscal self-sufficiency rate of the Medical High-tech Zone was sufficient in 2021. The government fund income was another important part of its aggregate fiscal revenue. In 2021, the government fund income of the Medical High-tech Zone was c. RMB5.1 billion.

Rating Sensitivities

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

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