

Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhejiang Changsanhe Holding Group Co., Ltd.

HONG KONG, 30 June 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Zhejiang Changsanhe Holding Group Co., Ltd. (“ZCHG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Huzhou City, Zhejiang Province (“Huzhou government”) would provide strong support to ZCHG if needed, in light of its indirect majority ownership of ZCHG, ZCHG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and industry cultivation in Huzhou City, Zhejiang Province (“Huzhou”), especially in Yangtze River Delta (Huzhou) Industrial Cooperation Zone (“Changhe Area”), and the linkage between the Huzhou government and ZCHG, 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 Huzhou government may face significant negative impact on its reputation and financing activities if ZCHG encounters any operational and financial difficulties.

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

Key Rating Rationales

Huzhou Government’s Ownership and Supervision: The Huzhou government indirectly holds the majority ownership of ZCHG through State-owned Assets Supervision and Administration Commission of Huzhou City (“Huzhou SASAC”) and other LIDCs in the region, and is the actual controller of the company. The Huzhou SASAC, as the largest shareholder, directly holds 47.22% of the company’s shares and indirectly holds 28.37% of the company’s share, totaling to 75.59% of the company’s shares. The remaining 23.09% and 1.32% of the company’s shares were indirectly held by Tianzihu Office of Huzhou Inter-Provincial Undertaking Industrial Transfer Demonstration Zone Management Committee and Zhejiang Province Finance Development Co. Ltd., respectively. The Huzhou 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. In addition, the Huzhou 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 Huzhou and Strategic Alignment: ZCHG, as the sole implementation body for infrastructure investment, construction and operation in Changhe

Area, is primarily responsible for the industrial land development, construction of roads and other projects, industry cultivation and investment promotion within the Changhe Area. Additionally, it also undertakes infrastructure projects in the neighboring areas. With the support of the local government, the company actively participates in and contributes to the integration of the Yangtze River Delta. The company plays an important role in promoting the economic and social development of the Changhe Area and Huzhou. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: ZCHG received operational and financial support from the government. ZCHG received a total subsidy amount of c. RMB99.8 million from 2020 to 2022, mainly including operating subsidies. The Huzhou government also injected cash, land, mining right, properties and other assets into ZCHG to expand its asset size and diversify its business. Besides, the government will repurchase some infrastructure projects and provide policy supports to ZCHG to ensure its business operation. Given the regional advantages in infrastructure construction within the Changhe Area, ZCHG has advantage to obtain major projects and other resources. We believe ZCHG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

ZCHG's Financial Matrix and Liquidity Position: ZCHG's total assets showed a continuous growth trend in the past years and reached RMB19.6 billion at end-2022, mainly due to the increase in inventories and intangible assets. The current assets of ZCHG accounted for c. 53.4% of the total assets at end-2022. However, the overall assets were less liquid, due to the large proportion of costs associated with construction projects and intangible assets. ZCHG's financial leverage (total liabilities to assets) was 14.3% at end-2022, representing a low level. Its adjusted total debt increased to c. RMB2.2 billion at end-2022, mainly due to the increase in long-term borrowings. The liquidity of ZCHG was sufficient. At end-2022, ZCHG had unrestricted cash balance and unused credit facilities of c. RMB726.3 million and RMB4.3 billion, respectively, compared with its debt due within one year of c. RMB209.2 million at the same time. Besides, ZCHG proactively plans to enhance its financing channels by exploring options such as bond issuance.

Economy and Fiscal Condition of Huzhou: Huzhou is a prefecture-level city directly under the jurisdiction of Zhejiang Province. It recorded an economic growth in 2022, achieving a GDP of c. RMB385 billion, with a year-on-year growth of 3.3%. Its total GDP ranks 8th among all cities in Zhejiang. The aggregate fiscal revenue of the Huzhou government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Huzhou government decreased to c. RMB38.7 billion due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income decreased to RMB54.6 billion in 2022, owing to the weak property market. Huzhou's budget deficit increased to 55.4% in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 107.4% at end-2022 from 86.4% at end-2021.

Rating Sensitivities

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

We would consider upgrading ZCHG's rating if (1) there is an upgrade in our internal credit assessment on the Huzhou government. (2) there is an upgrade in our internal credit assessment on the Huzhou 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 ZCHG'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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