

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiande State-owned Assets Investment Holding Group Co., Ltd.

HONG KONG, 1 August 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Jiande State-owned Assets Investment Holding Group Co., Ltd. (“JSAI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jiande (“the Jiande government”) would provide very strong support to JSAI if needed, in light of its full ownership of JSAI, JSAI’s strategic importance as the largest local investment and development company (“LIDC”) in terms of asset size and the most important development and operation entity in Jiande, and the linkage between the Jiande government and JSAI, 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 Jiande government may face significant negative impact on its reputation and financing activities if JSAI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Jiande government holds 100% shares of JSAI through Jiande State-owned Assets Management Service Center. The Jiande government also has strong control over the company, including appointing senior management and supervising development strategy, major financing plan and investment decisions. In addition, the Jiande 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: After receiving 90% equity of Jiande State-owned Assets Management Company and 100% equity interest in Jiande Economic Development Group Holding Company, JSAI become the largest LIDC in terms of asset size and the most important development and operation entity in Jiande. The company undertakes key projects designated by the local government and operates the city’s utilities. JSAI’s business operation has been aligned with the Jiande government’s development plans, and the company plays an important role in promoting economic and social development in Jiande.

Ongoing Government Support: JSAI has received ongoing support from the local government, including capital and asset injections and operational subsidies. The local

government provided cash of RMB560 million, 1,521 million and 486 million to JSAI in 2020, 2021 and 2022, respectively. The company also received assets such as mining rights, economic forest, lands, properties, projects and equity of state-owned enterprises amounting to RMB6.3 billion over the same period. In 2023, the Jiande government injected cash capital of c. RMB1.5 billion into the company, enlarging its paid-in capital from RMB0.5 million to RMB1.5 billion at end-March 2023. The company also received operational subsidies of RMB1,868 million between 2020 and 2022. These subsidies mainly support JSAI's activities in relation to providing public goods and services. We expect JSAI to receive strong support from the local government in light of its strategic importance.

Economy and Fiscal Condition of Jiande: Jiande is a county-level city located in Zhejiang Province and managed by Hangzhou City. Its GDP reached RMB43.4 billion in 2022. However, the GDP growth rate slowed to 1.3% in 2022 from 7.1% in 2021, mainly due to Covid's impact. However, its fixed asset investment dropped in the past three years in a row, mainly due to the decrease in transportation, ecological, environmental protection, urban renewal and water conservancy facilities' investment.

The Jiande government's aggregate fiscal revenues are mainly derived from government fund income and budgetary revenue. The Jiande government's budgetary revenue increased to RMB5.2 billion (including one time gain from mining right income of RMB1.1 billion) in 2022 from RMB3.4 billion in 2020. The fiscal self-sufficiency capacity of the Jiande government was moderately weak but improving, with a budget deficit of 51.0% in 2022, narrowing from 73.3% in 2020. In addition, Jiande's government fund income, mainly generated by land sales, remained the largest contributor to aggregate fiscal revenues in the past three years, recording at c. RMB6.7 billion in 2022.

The outstanding debt of the Jiande government continued to grow. At end-2022, the Jiande government's outstanding debt was RMB11.0 billion, including RMB6.6 billion of general obligations and RMB4.5 billion of special debt. Although the Jiande government borrowed heavily in special debts to support its public projects, aggregate revenue grew faster; thus, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 73.8% at end-2022 from 97.4% at end-2020.

JSAI's Financial and Liquidity Position: JSAI's asset size grew by 42.9% to RMB81.4 billion at end-March 2023 from RMB57.0 billion at end-2020. The expansion in assets was mainly financed by the corresponding growth of debts and equity. The company's total debt has increased significantly since 2020, from RMB31.9 billion at end-2020 to RMB46.8 billion at end-March 2023. Over the same period, the company also received multiple rounds of capital and asset injections from the local government, enlarging its equity to RMB28.3 billion from RMB20.5 billion. As a result, JSAI's financial leverage, as measured by debts/capitalization, stayed at c.60% level between end-2020 and end-March 2023. Its total liability/total asset ratio was slightly lifted to 65.2% from 63.9% over the same period.

The liquidity of JSAI was moderately tight. At end-March 2023, JSAI had a cash balance of RMB6.8 billion (including restricted cash of RMB191 million) compared with its debt due within

one year of RMB17.4 billion. Nevertheless, JSAl 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 lines of RMB28.6 billion at end-March 2023.

Rating Sensitivities

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

We would consider upgrading JSAl's rating if there is an upgrade in our internal credit assessment on the Jiande 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 JSAl'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.

Contact Information

Primary Analyst
Roy Luo, FRM
Associate Director
(852) 3462 9582
roy.luo@lhratingsglobal.com

Secondary Analyst
Sigmund Jiang, CFA
Analyst
(852) 3462 9587
sigmund.jiang@lhratingsglobal.com

Committee Chairperson
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.