

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Lujiang County Rural Revitalization Investment Co., Ltd.**

HONG KONG, 1 September 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Lujiang County Rural Revitalization Investment Co., Ltd. (“LCRRI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Lujiang County, Hefei City (“Lujiang government”) would provide strong support to LCRRI if needed, in light of its full ownership of LCRRI, LCRRI’s strategic importance as the main local investment and development company (“LIDC”) that is responsible for promoting the rural revitalization in Lujiang County, Hefei City (“Lujiang”) (“Hefei”), and the linkage between the Lujiang government and LCRRI, 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 Lujiang government may face significant negative impact on its reputation and financing activities if LCRRI encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Lujiang government holds the full ownership of LCRRI through Lujiang Finance Bureau (“Lujiang FB”), and it is the ultimate controlling shareholder of the company. The Lujiang 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 Lujiang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance and Strategic Alignment:** LCRRI, as one of the major LIDCs in Lujiang, is primarily responsible for the land development and consolidation, management of tourist attractions, and development and operation of leisure agriculture and rural tourism resources in the region. It owns strong regional franchised advantages and plays an important role in serving the social and economic development to promote the rural revitalization in Lujiang.

**Ongoing Government Support:** LCRRI continued to receive financial subsidies and asset/capital injections from the Lujiang government to support its business operations; we believe that the government support will remain intact given the company’s strategic role in rural revitalization. From 2020 to 2022, LCRRI received certain financial subsidies. In addition,

the asset and capital injections were injected by the Lujiang government in the form of land to be developed, land use rights, etc.

***LCRRI's Financial and Liquidity Position:*** LCRRI's total assets showed a strong growth in the past few years, with a growth rate of 45.5% and 25.2% in 2021 and 2022, respectively, and reached RMB43.8 billion at end-1H2023. The increase of LCRRI's total assets was largely due to the increase in inventories, account receivables and intangible assets and overall asset liquidity was weak.

LCRRI's financial leverage (total liabilities to assets) increased notably to 36.3% at end-1H2023, from 19.5% at end-2020. We expect LCRRI to continue to rely on external financing to support its capital expenditures, while the management expects its leverage at below 60% in the next 1-2 years. At end-June 2023, LCRRI had unrestricted cash balance and unused credit facilities of RMB1.8 billion and RMB1.9 billion, respectively, compared with its debt due within one year of RMB2.0 billion. In addition, LCRRI's financing channel has concentrated in bank loans. Obtaining additional funding channels or government support would be needed for maintaining its liquidity.

***Economy and Fiscal Condition of Lujiang:*** Lujiang is a county under the jurisdiction of Hefei City, Anhui Province, and is located in the south part of Hefei. Lujiang achieved rapid economic growth in 2021 and 2022, after a significant economic slowdown in 2020. Lujiang's GDP reached RMB60.1 billion in 2022, representing a year-over-year (y-o-y) growth rate of 7.8%, which was ranked the 1st among 59 counties and county-level cities of Anhui.

The aggregate fiscal revenue of the Lujiang government was mainly derived from the budgetary revenue and transfer payment. The budgetary revenue of the Lujiang government continued to grow in the past three years, and reached RMB2.6 billion in 2022, representing a y-o-y increase of 10.7%. The tax revenue accounted for around 82% of the budgetary revenue in 2020-2022. On the other hand, the Lujiang government highly relied on transfer payments from higher government, which reached RMB5.8 billion in 2022, accounting for 62.2% of aggregate fiscal revenue. The debt ratio (total outstanding debt/ aggregate fiscal revenue) climbed from 83.5% in 2020 to 132.6% in 2022, mainly due to the increase in special debt.

### **Rating Sensitivities**

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

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