

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhejiang Qiantang River Investment Development Co., Ltd.

HONG KONG, 25 September 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Zhejiang Qiantang River Investment Development Co., Ltd. (“ZQRID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Haining (“Haining government”) would provide strong support to ZQRID if needed. This mainly considers the Haining government indirectly owns majority shares of ZQRID, ZQRID’s strategic importance as the sole local investment and development company responsible for infrastructure construction, land consolidation, as well as development and operation of industrial parks in Haining Economic Development Zone and the linkage between the Haining government and ZQRID, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Haining government may face significant negative impact on its reputation and financing activities if ZQRID encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Haining government indirectly holds majority shares of ZQRID. The Haining government has strong control over the company through its shareholder, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local 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: ZQRID is the sole LIDC responsible for infrastructure construction and land consolidation in Haining EDZ. The company also develops and operates industrial parks in Haining EDZ, aiming at promoting the local industrial development. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government supplied ongoing support to ZQRID. The local government injected cash capital of RMB2.4 billion through its shareholder in 2022. In addition, ZQRID received operational subsidies of RMB189 million, 177 million, 254 million

and 158 million in 2020, 2021, 2022 and the first half of 2023, respectively, from the local government to support ZQRID's activities in relation to providing public goods. We expect ZQRID to receive ongoing support from the local government in the coming years considering its strategic importance in Haining.

Economy and Fiscal Condition of Haining: Haining is a county-level city under the jurisdiction of Zhejiang Province and managed by Jiaxing City on behalf of Zhejiang Province. Haining's GDP reached RMB124.7 billion in 2022, which was ranked 1st among 7 districts and counties under the jurisdiction of Jiaxing. It was ranked 22nd among China's top 100 counties in comprehensive strength in 2022. However, Haining's GDP growth rate fluctuated in the past three year, which was 2.1%, 7.0% and 0.7% in 2020, 2021 and 2022, respectively, owing to Covid's disruption.

Haining EDZ has been serving as an important growth driver for the city's economic and industrial development since its establishment in August 1992. In recent years, Haining EDZ focused on the development of three leading industries (fashion, equipment manufacturing and IT), and cultivated several emerging industries such as pan-semiconductor, high-end equipment and aerospace.

The Haining government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. Due to the large-scale value-added tax refund policy, the Haining government's budgetary revenue decreased to RMB9.5 billion in 2022 from RMB11.4 billion in 2021. On the other hand, Haining's government fund income maintained a steady growth in the past three years, reaching RMB19.7 billion in 2022 and accounting for 57.8% of aggregate revenue.

The outstanding debt of the Haining government continued to grow due the new issuance of special debts to support the projects development, mainly infrastructures and railway projects. At end-2022, the Haining government's outstanding debt increased to RMB23.0 billion from RMB17.3 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was lifted to 71.4% at end-2022 from 58.3% at end-2021.

ZQRID's Financial and Liquidity Position: ZQRID's asset size expanded rapidly in the past few years due to the company active participation in Haining EDZ's development. Its total assets almost doubled to RMB30,932 million at end-June 2023 from RMB15,577 million at end-2020. The company relied heavily on borrowings to fund its expansion, with total debt soared by 131.3% to RMB17,658 million from RMB7,634 million over the same period. Thanks to the cash capital injection in 2022, its financial leverage, as measured by total debt/capitalization, stayed at c. 60% level.

ZQRID's liquidity was moderate tight. At end-June 2023, the company had cash of RMB2,009 million, compared with its debt due within one year of RMB3,456 million. Yet ZQRID has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. At end-June 2023, the company had unused credit lines of RMB4.4 billion.

Rating Sensitivities

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

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