

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hunan Hi-Tech Investment Holding Group Co., Ltd.

HONG KONG, 16 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Hunan Hi-Tech Investment Holding Group Co., Ltd. (“HHI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Zhuzhou High-tech Industrial Development Zone Management Committee (“Zhuzhou High-tech Zone MC”) (the de facto local government of Zhuzhou High-tech Industrial Development Zone (“Zhuzhou High-tech Zone”)) would provide very strong support to HHI if needed. This mainly considers the Zhuzhou High-tech Zone MC’s full ownership of HHI, HHI’s strategic importance as the most important local investment and development company (“LIDC”) responsible for the development and operation of Zhuzhou High-tech Zone in Zhuzhou City (“Zhuzhou”), and the strong linkage between the local government and HHI, including strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Zhuzhou High-tech Zone MC may face significant negative impact on its reputation and financing activities if HHI encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that HHI’s strategic importance would remain intact while the Zhuzhou High-tech Zone MC will continue to ensure HHI’s stable operation.

Key Rating Rationales

Government’s Ownership and Supervision: The Zhuzhou High-tech Zone MC, as the de facto local government of Zhuzhou High-tech Zone, directly holds 100% shares of HHI and is the actual controller of HHI. The local government has strong control over the company, including 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: As the most important LIDC in Zhuzhou High-tech Zone, HHI is mainly responsible for infrastructure construction within the region, and is positioned as an industry development service provider in Zhuzhou High-tech Zone. 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 provided strong ongoing support to HHI. The local government allocated equities of several LIDCs in the region to HHI in the past three years. The local government also injected a series of cash and assets to support the

company between 2020 and the first half of 2023. Over the same period, the company received operational subsidies amounting to RMB658 million to support HHI's activities in relation to providing public goods. We expect HHI to receive ongoing support from the local government in the coming years considering its strategic importance in Zhuzhou.

Economy and Fiscal Condition of Zhuzhou High-tech Zone: Zhuzhou High-tech Zone was established in 1992 with the approval of the State Council and then integrated with Tianyuan District of Zhuzhou at end-2000. Zhuzhou High-tech Zone, as one of the important state-level high-tech industrial development zones in Hunan Province, maintained rapid economic growth in recent years. Its GDP reached c. RMB54.5 billion in 2022, representing a year-over-year (y-o-y) growth rate of 4.5%, and its GDP amount was ranked 2nd among the 9 jurisdictions of Zhuzhou.

The Zhuzhou High-tech Zone government's budgetary revenue was on a downward trend in the past three years, with its growth rate recording at 1.7%, -10.2% and -11.0% in 2020, 2021 and 2022, respectively, mainly due to the decrease of non-tax revenue. The tax revenue accounted for 87.2% of the budgetary revenue in 2022, up from 84.5% in 2021 and 75.3% in 2020. The fiscal self-sufficiency rate of the Zhuzhou High-tech Zone government was relatively high (c. 81.8% in 2022), but its budget deficit widened to -22.2% in 2022 from -0.3% in 2020. As another substantial component of the local fiscal revenue, the revenue from the government-managed fund increased to RMB3.5 billion in 2022 from RMB2.3 billion in 2020, mainly due to the increase of in revenue from state-owned land use rights.

The outstanding debt of the Zhuzhou High-tech Zone government continued to grow. At end-2022, the Zhuzhou High-tech Zone government's outstanding debt was c. RMB8.7 billion, including RMB5.1 billion of general obligations and RMB3.6 billion of special debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 80.5% at end-2022 from 39.9% at end-2020, mainly due to the increase in special debt.

HHI's Financial and Liquidity Position: HHI's asset size grew moderately to RMB95.2 billion at end-June 2023 from RMB93.1 billion at end-2020. The company's financial leverage, as measured by debt/capitalization increased from 54.5% to 61.3% over the same period. Similarly, its long-term debt/capitalization ratio increased to 49.0% from 46.9% over the same period.

HHI's liquidity was relatively tight. At end-June 2023, the company had cash of RMB4.1 billion (including restricted cash of RMB2.2 billion), compared with debt due within one year of RMB20.7 billion. Yet the company has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. Besides, the company also had unused bank credit line of RMB13.2 billion at end-June 2023.

Rating Sensitivities

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

We would consider upgrading HHI's rating if there is an upgrade in our internal credit assessment on the local 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 HHI'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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