

# Hunan Hi-Tech Investment Holding Group Co., Ltd.

## Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hunan Hi-Tech Investment Holding Group Co., Ltd. (“HHI” or “the company”)

### Summary

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.

### Rating Rationale

**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

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	16 November 2023

### Key Figures of Zhuzhou High-tech Zone and HHI

(RMB billion)

Zhuzhou High-tech Zone	2021	2022
GDP	51.3	54.5
GDP growth rate (%)	8.3	4.5
Budgetary revenue	4.8	4.3
Government fund	3.1	3.5
Transfer payment	1.8	2.8
Budgetary expenditure	5.5	5.2
HHI	2021	2022
Asset	89.4	91.8
Equity	36.1	33.1
Revenue	6.0	6.1

Source: Public information, HHI and Lianhe Global’s calculations

### Analysts

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

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 2<sup>nd</sup> 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.

## Operating Environment

### Economic 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 has

jurisdiction over 4 streets and 3 towns, with a total land area of 328 square kilometers. Zhuzhou High-tech Zone is the core area of “Zhuzhou-China Power Valley”, with a development pattern of “one zone and four parks”, including Hexi Demonstration Park, Tianxin High-tech Industrial Park, Dongjiaduan High-tech Industrial Park and Jinshan Science and Technology Industrial Park. At end-2022, Zhuzhou High-tech Zone had a resident population of c. 0.5 million.

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 2<sup>nd</sup> among the 9 jurisdictions of Zhuzhou. Zhuzhou High-tech Zone’s economic growth was mainly fueled by the tertiary and secondary industries in the past few years, which accounted for 53.5% and 44.0% in 2022, respectively. Its economic development focused on aerospace, new energy, new materials and electronic information industry in recent years. The fixed asset investment growth rate of Zhuzhou High-tech Zone declined sharply to -28.2% in 2022, owing to weak property market.

<b>Zhuzhou High-tech Zone’s GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	46.7	51.3	54.5
-Primary industry (%)	2.8	2.2	2.5
-Secondary industry (%)	42.3	44.0	44.0
-Tertiary industry (%)	54.9	53.9	53.5
GDP growth rate (%)	4.1	8.3	4.5
Fixed asset investment	51.4	53.7	38.6
Fixed asset investment growth rate (%)	8.1	4.5	-28.2
Population (million)	0.5	0.5	0.5

*Source: Public information and Lianhe Global’s calculations*

## Fiscal Condition of Zhuzhou High-tech Zone

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<b>Zhuzhou High-tech Zone's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	5.3	4.8	4.3
Budgetary revenue growth rate (%)	1.7	-10.2	-11.0
Tax revenue	4.0	4.0	3.7
Tax revenue (% of budgetary revenue)	75.3	84.5	87.2
Government fund income	2.3	3.1	3.5
Transfer payment	2.3	1.8	2.8
<b>Aggregate revenue</b>	<b>10.0</b>	<b>9.7</b>	<b>10.8</b>
Budgetary expenditure	5.3	5.5	5.2
Budget balance <sup>1</sup> (%)	-0.3	-14.4	-22.2

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Full Government Ownership

HHI was established in December 2015 with an initial registered capital of RMB20 million, funded by Hunan Tier Group Co., Ltd. After a series of capital injections and equity transfers, at end-June 2023, HHI had a shareholding structure in which the Zhuzhou High-tech Zone MC, as the sole and actual controlling shareholder, held 100% of the company's equity, with the registered and paid-in capital of RMB3.0 billion and RMB20 million, respectively.

## Strategic Importance and Government Linkage

### Strategic Importance of HHI to Zhuzhou

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.

### Strong Linkage with the Local Government

The Zhuzhou High-tech Zone MC directly holds 100% shares of HHI and is the ultimate controller of HHI. The local government has strong control over the company, including the 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.

### Ongoing Government Support

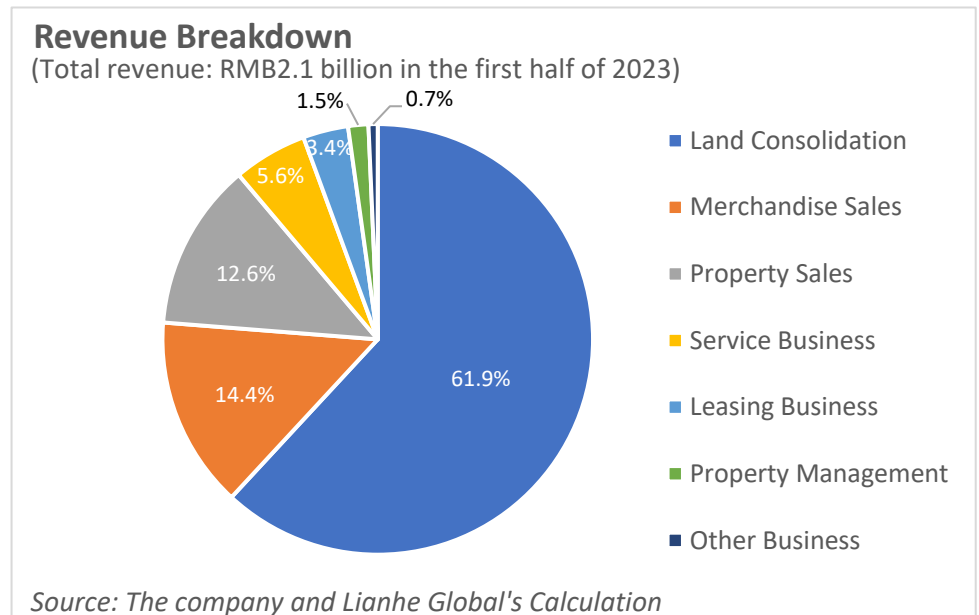
The local government provided strong ongoing support to HHI. The local government allocated equities of several LIDCs in the region to HHI in the past three years. The local government also injected a series of cash and assets to support the company between 2020 and the first half of 2023. Over the same 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.

## Business Profile

### The Key Entity Responsible for Infrastructure Construction in Zhuzhou High-tech Zone

HHI, as the most important LIDC in Zhuzhou High-tech Zone, is mainly responsible for infrastructure construction within the region, and is positioned as an industry development service provider in Zhuzhou High-tech Zone, enjoying regional franchise advantage within the region. As the most important platform designated by the Zhuzhou High-tech Zone government, the company receives strong support from both the shareholder and the government in terms of asset transfer and fiscal subsidies.

The primary sources of operating revenue for HHI are land consolidation, merchandise sales, property sales, service business, leasing business, property management, while it also engaged in construction projects and park development, etc. The company's total revenue reached c. RMB8.4 billion, RMB6.0 billion, RMB6.1 billion and RMB2.1 billion in 2020, 2021, 2022 and 1H2023, respectively. The overall gross profit margin of HHI increased to 26.2% from 14.8% over the same period. In general, HHI's business was well diversified, and it has regional advantages in its major businesses.



### Land Consolidation

HHI is designated by the Zhuzhou High-tech Zone MC to undertake the municipal infrastructure construction, including land development and asset operation within the scope of Hexi Demonstration Park of Zhuzhou High-tech Zone. HHI signed construction contracts with the Zhuzhou High-tech Zone government to develop and organize the land of Hexi Demonstration Park, and the government pays construction costs plus a management fee to the company. Its revenue in this segment remained stable in the past few years, which reached c. RMB3.6 billion, RMB3.5 billion, RMB3.8 billion and RMB1.3 billion in 2020, 2021, 2022 and 1H2023, respectively. Its gross profit margin in this segment represents an upward trend, increasing from 23.8% in 2020 to 31.8% in 2022.

### Property Sales and Leasing

The company undertakes sales and leasing of industrial building, office building, residential and public housing. Its revenue in this segment recorded at c. RMB0.9 billion, RMB0.9 billion, RMB0.8 billion and RMB0.3 billion in 2020, 2021, 2022 and 1H2023, respectively, with a low gross profit margin of below 2.0%.

### Merchandise Sales

The merchandise sales business mainly involves computer network equipment, non-ferrous metal smelting as well as other bulk commodities. The revenue in merchandise sales business continued to decline, which reached c. RMB3.3 billion, RMB1.0 billion, RMB0.9 billion and RMB0.3 billion in 2020, 2021, 2022 and 1H2023, respectively, with a gross profit margin fluctuating between 2.8% and 12.7% over the same period. The company's merchandise sales business has a high concentration of customers, which mainly consists of small and medium-sized private enterprises.

### Other Businesses

Service business and property management accounted for a relatively small proportion of the company's total revenue. Other businesses of HHI include industrial investment, scenic operation, consulting, etc., which mainly play a role of supplementing the revenue of the main business and make the revenue structure more diversified.

## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>June-2023</b>
Total Asset	93,050	89,423	91,765	95,217
Equity	39,217	36,102	33,104	33,181
Debt	47,241	46,661	49,143	52,471
Debt / (Debt + Equity) (%)	54.6	56.4	59.8	61.3
LT Debts	34,682	32,887	28,868	31,818
LT Debt / (LT Debt + Equity) (%)	46.9	47.7	46.6	49.0

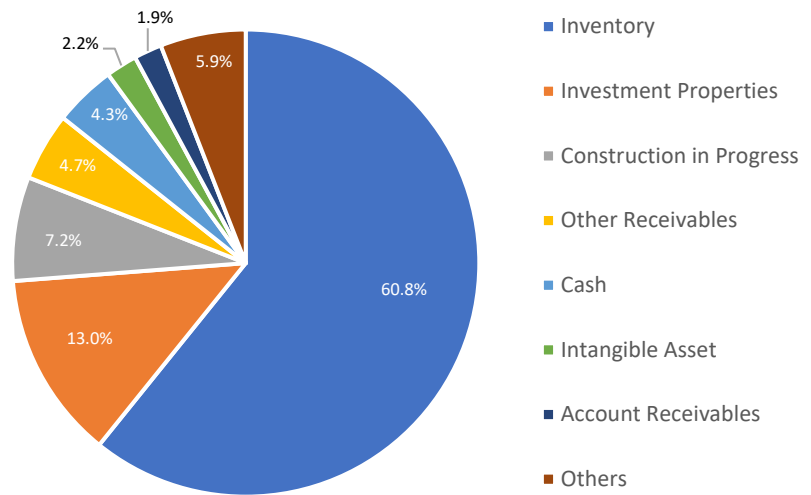
*Source: The company's financial reports and Lianhe Global's calculations*

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 asset liquidity is weak, as it mainly consists of inventories, investment properties and constructions in progress. The company's project construction activities accumulated sizeable inventories (mainly lands and construction costs), investment properties and construction in progress, amounting to RMB57.9 billion, RMB12.4 billion and RMB6.9 billion, and representing 60.8%, 13.0% and 7.2% of total asset, respectively, at end-June 2023. These assets usually take a long time to monetize due to the prolonged construction and payment collection period. In addition, the company had a large number of other receivables, primarily due from government agencies. These repayment schedules are highly subject to the fiscal conditions of the local government.

### Asset Breakdown

(Total Assets: RMB95.2 billion at end-June 2023)



Source: the company and Lianhe Global's calculation

### Debt Servicing Capability

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.

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