

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hunan Ruixin Industrial Operation Management Co., Ltd.**

HONG KONG, 21 December 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Hunan Ruixin Industrial Operation Management Co., Ltd. (“HRIOM” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yuanjiang City (“Yuanjiang government”) would provide very strong support to HRIOM if needed, in light of its 90% ownership of HRIOM, HRIOM’s strategic importance as an important local investment and development company (“LIDC”) responsible for state-owned assets operation and investment in Yuanjiang City (“Yuanjiang”), and the linkage between the Yuanjiang government and HRIOM, 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 Yuanjiang government may face significant negative impact on its reputation and financing activities if HRIOM encounters any operational and financial difficulties.

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

**Key Rating Rationales**

***Yuanjiang Government’s Ownership and Supervision:*** The Yuanjiang government holds 90% ownership of HRIOM through Yuanjiang State-owned Asset Affairs Center (“YSAAC”) and Hunan Yuanjiang Qionghu Investment Construction Development Group Co., Ltd. (“HYQI”). The Yuanjiang government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Yuanjiang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

***Strategic Importance to Yuanjiang and Strategic Alignment:*** HRIOM, as an important LIDC in Yuanjiang, is mainly responsible for the state-owned assets operation and investment within the region, with a strong regional franchise advantage. The company is engaged in gravel sales, property leasing, property management, funeral services and other businesses. HRIOM plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

***Ongoing Government Support:*** HRIOM continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We

believe that the government support will remain intact given the company's strategic role in the economic development of Yuanjiang. HRIOM received subsidies totaling RMB0.76 million from 2020 to the first nine months in 2023. Meanwhile, HRIOM received asset and capital injections in the form of cash, buildings, equity transfers and other assets, totaling about RMB3,933.9 million over the same period.

***HRIOM's Financial and Liquidity Position:*** HRIOM's asset size grew to RMB17.3 billion at end-September 2023 from RMB13.1 billion at end-2020, which was largely attributed to the increase of other receivables following the expansion of the scale of its gravel sales business. The assets liquidity of HRIOM was tight but improving, as the current assets accounted for 16.5% of total assets only at end-September 2023. HRIOM's dependence on debt financing was moderate but growing, the total debts climbed to RMB2,275 million at end-September 2023 from RMB250 million at end-2021. The liability to asset ratio, as measured by total liabilities over total assets, increased but remained low at 15.5% at end-September 2023 from 3.1% at end-2020.

The liquidity of HRIOM was moderately weak. At end-September 2023, HRIOM had unrestricted cash balance of RMB167.9 million, compared with its debt due within one year of RMB364.0 million. At the same time, the company had unused credit facilities of RMB2,328.8 million at end-September 2023. HRIOM's financing channel mainly concentrates in bank loans. Therefore, obtaining additional funding channels or government support would be crucial in maintaining its liquidity.

***Economy and Fiscal Condition of Yuanjiang:*** Yuanjiang is a county-level city under the administration of Yiyang City and is located in northern Hunan Province. Lay in the south of Dongting Lake, Yuanjiang is a city featured with a land of fish and rice. The primary industry's contribution is significant to Yuanjiang's economy, representing 25.0% of its GDP in 2022. Yuanjiang is promoting its industrial development, focusing on the supply chain development of machinery manufacturing, shipbuilding, ecological and green food, textile and garment industries. However, its industrial-added value dropped by 1.7% in 2022. Yuanjiang's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.5%, 8.3% and 2.3% in 2020, 2021 and 2022, respectively. Yuanjiang's GDP reached c. RMB30.0 billion in 2022, and was ranked 3rd among six districts and counties under the jurisdiction of Yiyang. GDP per capita of Yuanjiang reached c. RMB 53,600 in 2022, lower than Hunan (c. RMB73,600) and China (c. RMB85,700).

The Yuanjiang government's budgetary revenue grew significantly to RMB1.3 billion in 2022 from 0.8 billion in 2020, representing a high compound annual growth rate of 33.9% ("CAGR"). However, the Yuanjiang government's budgetary revenue scale remained small, and its fiscal self-sufficiency capacity was weak, with a high budget deficit -301.5% in 2022. The outstanding debt of the Yuanjiang government continued to grow in the past three years and reached RMB6.1 billion at end-2022, up from RMB4.1 billion at end-2020, representing a CAGR of 21.7%. This was mainly due to the new issuance of special debts supporting Yuanjiang's project developments. As measured by the total government debt/aggregate revenue, the government debt ratio was lifted to 100.0% in 2022 from 64.8% in 2020.

## Rating Sensitivities

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

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