

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhejiang Anji Construction Holding Group Co., Ltd.**

HONG KONG, 9 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Zhejiang Anji Construction Holding Group Co., Ltd. (“ZACH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Anji County (“the Anji government”) would provide very strong support to ZACH if needed. This mainly considers the Anji government’s full ownership of ZACH, ZACH’s strategic position as an important local investment and development company (“LIDC”) responsible for project development in Anji County (“Anji”), and the strong linkage between the Anji government and ZACH, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Anji government may face significant negative impact on its reputation and financing activities should ZACH encounter any operational or financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Anji government holds 100% ownership of ZACH through Financial Bureau of Anji County. The Anji government has strong control and supervision over ZACH including the appointment of senior management and supervision of development strategy, major financing plan and investment decision. 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 Alignment and Importance:** ZACH’s business operation and strategic planning have been aligned with the local government’s policies. ZACH is an important LIDC in Anji. The company is focusing on the development of “Liangshan” Future Science and Technology City, which is a key comprehensive new area of Anji comprising business, industry, culture and residence zones. It is a priority task of the local government to improve the infrastructure, living environment and industry attractiveness of Anji, and promote the local economic and social development.

**Ongoing Government Support:** ZACH receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its operations. The Anji government injected an array of assets including project funds, hotels, properties, parking lots, tree farms and reservoirs, etc. valued at RMB1.8 billion and RMB10.4 billion in 2020 and

2021, respectively. Between 2020 and end-September 2022, the Anji government also provided operational subsidies amounting to RMB871 million to ZACH. We expect ZACH to receive ongoing support from the local government in the coming years considering its strategic importance in Anji.

***Economic and Fiscal Conditions of Anji County:*** As one of the top 100 counties in China in terms of comprehensive strength, Anji has a relatively strong economic and financial strength. Anji's economic development focused on cultural tourism, digital economy, new energy and tea industry in recent years. Anji's GDP reached RMB58.2 billion in 2022, representing a year-over-year growth rate of 0.9%, down from 10.8% in 2021, owing to the impact of Covid.

The Anji government's budgetary revenue increased steadily in 2020 and 2021, with year-over-year growth rates of 11.6% and 10.2% respectively but dropped by 5.1% to RMB6.2 billion in 2022, mainly due to Covid related tax-advantaged policies. The fiscal self-sufficiency capacity of the Anji government was moderate weak. Therefore, it continuously received subsidies from higher governments in the past three years. In contrast, as the major source of fiscal revenue, Anji's government fund income increased by 31.8% to RMB9.0 billion in 2022, owing to the rapidly increase of revenue from state-owned land use rights concession.

The outstanding debt of the Anji government continued to grow. At end-2022, the Anji government's outstanding debt was c. RMB22.3 billion. As the Anji government borrowed heavily in special debts to support public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 122.3% at end-2022 from 111.8% at end-2020.

***ZACH's Financial and Liquidity Position:*** ZACH's asset size doubled to RMB66.2 billion at end-September 2023 from RMB30.8 billion at end-2020, as the company actively participated in project development in Anji, especially projects related to Liangshan" Future Science and Technology City. The company relied on both government support and borrowings to finance its asset expansion. Therefore, its financial leverage, as measured by debt/capitalization, fluctuated between 35%-50% between 2020 and end-September 2023.

ZACH's asset liquidity was moderate weak, as the company project development activities accumulated sizeable inventories (mainly lands and construction costs), investment properties (mainly self-management projects), fixed assets and construction in progress, representing 79.1% of total asset at end-September 2023. These assets usually take a long time to monetize due to the protracted construction and payback period.

ZACH's short-term debt servicing pressure is manageable. At end-September 2023, the company had cash of RMB5.0 billion (including restricted cash of RMB0.5 billion), compared with debt due within one year of RMB6.9 billion. At the same time, 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. In addition, ZACH had unused bank lines of RMB15.0 billion at end-September 2023.

**High Contingent Liability:** ZACH's contingent liability is high. The company provided financial guarantees of RMB12.7 billion at end-September 2023, accounting for 40.1% of its net assets. Considering the guaranteed parties were mainly other LIDC in Anji, the company's credit status is highly correlated with the overall credit environment of Anji.

### **Rating Sensitivities**

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

We would consider upgrading ZACH's rating if there is an upgrade in our internal credit assessment on the Anji 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 ZACH'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.

### **Contact Information**

Primary Analyst  
Roy Luo, FRM, CESGA  
Associate Director  
(852) 3462 9582  
[roy.luo@lhratingsglobal.com](mailto:roy.luo@lhratingsglobal.com)

Secondary Analyst  
Sigmund Jiang, CFA, CESGA  
Analyst  
(852) 3462 9587  
[sigmund.jiang@lhratingsglobal.com](mailto:sigmund.jiang@lhratingsglobal.com)

Committee Chairperson

Toni Ho, CFA, FRM

Director

(852) 3462 9578

[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Business Development Contact

Joyce Chi, CESGA

Managing Director

(852) 3462 9569

[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.