

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taizhou Huangyan State-owned Capital Investment and Operation Group Co., Ltd.

HONG KONG, 27 February 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Taizhou Huangyan State-owned Capital Investment and Operation Group Co., Ltd. (“THSCI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Huangyan, Xuzhou City (“Huangyan government”) would provide very strong support to THSCI if needed, in light of its full ownership of THSCI, THSCI’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset management in Huangyan, Taizhou City (“Huangyan”), and the linkage between the Huangyan government and THSCI, 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 Huangyan government may face significant negative impact on its reputation and financing activities if THSCI encounters any operational and financial difficulties.

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

Key Rating Rationales

Huangyan Government’s Ownership and Supervision: The Huangyan government holds the full ownership of THSCI through the Finance Bureau of Huangyan District, Taizhou City (“Huangyan FB”). The Huangyan government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Huangyan government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Huangyan and Strategic Alignment: THSCI, as the key LIDC in Huangyan, is primarily responsible for the investment, development and operation of infrastructure projects and state-owned asset management within the city. Serving as the sole entity in charge of infrastructure projects throughout Huangyan, THSCI is mainly engaged in resettlement housing development, road construction and other infrastructure related projects with strong regional advantages. It is also entrusted with the function of water supply and labor service in Huangyan. THSCI plays an important role in promoting the economic and social

development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: THSCI received operational and financial support from the Huangyan government. The Huangyan government continued to inject capital and other kinds of assets into THSCI to expand its asset size and diversify its business. Given that it is the sole entity for infrastructure construction and state-owned asset operation in Huangyan, THSCI has an advantage in acquiring related resources and major projects. We believe THSCI is likely going to receive government support to support its daily business operation.

THSCI's Financial and Liquidity Position: THSCI's total assets showed a continuous growth trend in the past few years and reached around RMB100.0 billion at end-June 2023, largely attributed to the increase of inventories that related to the company's resettlement housing and infrastructure construction business. The current assets of THSCI accounted for 78.9% of the total assets at end-June 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and receivables. THSCI's financial leverage (total liabilities to total assets) was 63.5% and its adjusted debt increased to RMB53.2 billion at end-June 2023 from RMB33.8 billion at end-2021. The liquidity of THSCI was sufficient. At end-June 2023, THSCI had a cash balance and unused credit facilities of RMB5.5 billion and RMB16.0 billion, respectively, compared with its debt due within one year of RMB15.5 billion. Besides, THSCI has access to various financing channels, including bank loans, non-traditional financing and bond issuance, to support its debt repayment and business operations.

Economy and Fiscal Condition of Huangyan: Huangyan is a district of Taizhou City, Zhejiang Province, and is located in the south part of Taizhou. Huangyan's GDP growth rate fluctuated in the past due to Covid's disruption, which was 3.7%, 6.5% and 3.5% in 2020, 2021 and 2022, respectively. In 2023, the overall economic performance of Huangyan stabilized and improved. The district achieved a GDP of RMB63.8 billion, ranking 6th out of all districts and counties under Taizhou's jurisdiction.

The aggregate fiscal revenues of the Huangyan government are mainly derived from budgetary revenue and government fund income. In 2022, Huangyan government's budgetary revenue decreased to RMB4.1 billion due to significant value-added tax credit refunds supporting the economy, resulting in a budget deficit of 66.3%. However, in 2023, the revenue improved by 22.1% to RMB5.0 billion, with a reduced deficit of 41.2%. Tax revenue constituted 81%-90% of total budgetary revenue over the past three years. Government fund income, primarily from land use rights transfers, rose from RMB4.1 billion in 2021 to RMB10.1 billion in 2022. The government's outstanding debt increased modestly from RMB10.8 billion in 2020 to RMB15.4 billion in 2022, with the fiscal debt ratio (total government debt outstanding/aggregate revenue) declining to 89.7% by end-2022 from 134% at end-2021.

Rating Sensitivities

We would consider downgrading THSCI's rating if (1) there is perceived weakening in support from the Huangyan government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Huangyan

government's ownership of THSCI, or (3) there is a downgrade in our internal credit assessment on the Huangyan government.

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