

## Zhuhai Huafa Group Co., Ltd.

### Initial Issuer Report

#### Summary

<b>Issuer Rating</b>	A+
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	9 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhuhai Huafa Group Co., Ltd. (“ZHG” or “the company”)

#### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Guangdong Province (“Guangdong government”) and the People’s Government of Zhuhai City, Guangdong Province (“Zhuhai government”) would provide strong support to ZHG if needed, in light of their ownership of ZHG, ZHG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for urban construction and operation, industrial and finance development, and state-owned asset management in Zhuhai City, Guangdong Province (“Zhuhai”), and the linkage between the government and ZHG, including supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Guangdong and Zhuhai government may face significant negative impact on its reputation and financing activities if ZHG encounters any operational and financial difficulties.

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

#### Rating Rationale

**Government’s Ownership and Supervision:** The Zhuhai government directly holds the majority ownership of ZHG through Zhuhai State-owned Assets Supervision and Administration Commission (“Zhuhai SASAC”), and is the actual controller of the company. The remaining stake is held directly by the Guangdong Provincial Department of Finance (“Guangdong DF”). The Zhuhai government 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 government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Zhuhai and Strategic Alignment:** Zhuhai’s municipal state-owned enterprises are organized into five major asset groups according to the government’s initiative, with ZHG emerging as a key player in infrastructure and urban operations, modern finance and strategic emerging industries. Particularly dominant in Zhuhai’s real estate development sector, ZHG’s involvement in urban development projects underscores its pivotal role in forming the city’s landscape and driving economic development. Also, ZHG possesses a wide range of financial licenses to facilitate and promote Zhuhai’s modern financial sector. Furthermore, through initiatives to upgrade industries and foster cooperation with Macau, ZHG plays a crucial role in integration and development of the Greater Bay Area. ZHG’s alignment with Guangdong and Zhuhai governments’ development plans, substantial contributions to GDP, fixed asset investment and tax revenue in the area, as well as its efforts in creating industrial clusters and employment opportunities, highlight its significant impact on the economic and social development in Guangdong Province (“Guangdong”) and Zhuhai.

#### Key Figures of Zhuhai and ZHG

(RMB billion)	2022	2023
<b>Zhuhai</b>		
GDP	404.5	423.3
GDP growth rate (%)	2.3	3.8
Budgetary revenue	43.7	48.2
Government fund	37.0	8.7
Transfer payment	13.7	17.7
Budgetary expenditure	75.4	67.2
<b>ZHG</b>	<b>2022</b>	<b>2023.9</b>
Assets	650.4	715.8
Equity	168.5	162.9
Revenue	157.6	129.4

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

#### Analysts

Jack Li, CESGA  
 (852) 3462 9585  
[jack.li@lhratingsglobal.com](mailto:jack.li@lhratingsglobal.com)

Toni Ho, CFA, FRM  
 +852 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

#### Applicable Criteria

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

**Ongoing Government Support:** ZHG continued to receive financial subsidies, mainly including operating subsidies and tax breaks, from the local government to maintain its business operation. ZHG received subsidies of RMB1.5 billion from 2020 to the first nine months of 2023. The Zhuhai SASAC has increased the company's capital by RMB15.8 billion through capital injections since 2021, thereby improving ZHG's capital strength. Additionally, the Zhuhai government continues to transfer assets and equity of other state-owned enterprises to the company gratuitously, with the aim of integrating resources under ZHG's management. The Zhuhai government implements related policies to ensure the financial security, tax benefits and other support to ZHG's main businesses. Given that it is the key entity for urban operation and state-owned asset management in Zhuhai, ZHG has an advantage in acquiring related resources and major projects. We believe ZHG is likely going to receive government support, including capital and high-quality assets, equities of other companies, operational subsidies, tax breaks, favorable policies and other kind of government grants to support its daily business operation.

**Largest LIDC Headquartered in Zhuhai with Diversified Operation across China:** ZHG stands out as the largest LIDC in terms of asset size in Zhuhai and the third largest LIDC in Guangdong among all LIDCs. In the 2023 list of China's top 500 enterprises, ZHG secured the 169<sup>th</sup> spot. Its operational revenue remains substantial, reaching RMB157.6 billion and RMB129.4 billion in 2022 and the first nine months of 2023, respectively. The company's revenue sources are varied, with a business model structured around three major industrial clusters: technology, finance, and urban development (including urban operations, real estate development, trade services, and modern services). Trade logistics and real estate development serve as the primary revenue drivers, although their contributions to total revenue remained below 50% of ZHG's total revenue between 2020 and 2022. In the real estate sector, ZHG ranked 14<sup>th</sup> in terms of contracted sales nationwide in 2023. While ZHG focuses on developing its business in Zhuhai, it also extends its operations to various regions within Guangdong and other provinces across China, which underscores its extensive operational footprint.

**ZHG's Financial Matrix and Liquidity Position:** ZHG's total assets showed a continuous growth trend in the past years and reached RMB715.8 billion at end-September 2023, mainly due to the increase of inventories, which have steadily increased in tandem with the expansion of the company's urban operation and real estate development business. The current assets accounted for 76.4% of total assets at end-September 2023. The overall asset liquidity was moderate, with RMB97.0 billion of its assets being pledged to secure bank loans and general banking facilities. ZHG's financial leverage (total liabilities to total assets) was 77.2% and its adjusted debt increased to RMB336.1 billion at end-September 2023. The liquidity of ZHG was sufficient. At end-September 2023, ZHG had an unrestricted cash balance and unused credit facilities of RMB70.1 billion and RMB268.1 billion, respectively, compared with its debt due within one year of RMB125.4 billion. Besides, ZHG employs a multifaceted financing strategy, which utilizes traditional debt channels (bank loans and bond issuance) alongside innovative methods like asset securitization and sale and repurchase agreements to support its capital-intensive projects, debt repayment and business operations, as well as maintaining a balanced risk management approach.

**Economy and Fiscal Condition of Zhuhai:** Zhuhai is a prefecture city of Guangdong and it is one of the five Special Economic Zones. Zhuhai recorded an economic growth in 2023, achieving a GDP of RMB423.3 billion, with a year-on-year growth of 3.8%. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 44.3% and 54.1% of Zhuhai's aggregate GDP, respectively, in 2023.

The aggregate fiscal revenue of the Zhuhai government was mainly derived from the budgetary revenue and government fund income. The Zhuhai government's budgetary

revenue increased to RMB48.2 billion in 2023 from RMB43.7 billion in 2022, marking a growth of 10.3%, the highest among Guangdong. However, there was a significant decrease in government managed fund income from RMB49.6 billion in 2021 to RMB8.7 billion in 2023, mainly due to the fluctuation of land use right transfer income amid challenging property market conditions. The government debt of Zhuhai increased significantly to RMB132.5 billion at end-2023 from RMB89.1 billion at end-2021, mainly due to the increase in special debt to support a series of major projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 31.2% at end-2023 from 23.0% at end-2021.

### Rating Sensitivities

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

We would consider upgrading ZHG's rating if (1) there is strengthened support from the government, or (2) there is an upgrade in our internal credit assessment on the Guangdong government.

### Operating Environment

#### Economic Condition of Zhuhai

Zhuhai is a prefecture city of Guangdong and it is one of the five Special Economic Zones. It is situated in the southeastern part of Guangdong, is bordered by Jiangmen to the west, Zhongshan to the north, and faces Hong Kong across the sea to the east, with direct land connection to Macau in the south. Since the opening of the Hong Kong-Zhuhai-Macao Bridge in October 2018, Zhuhai became the only mainland city with both road connections to both Hong Kong and Macau. Covering an area of 1,725 square kilometers, Zhuhai has three administrative districts and five economic functional zones. As an important port city, Zhuhai boasts 10 first-class national ports, making it the second-largest port city in China after Shenzhen. In recent years, with intensified efforts in talent attraction and relaxed residency policies, Zhuhai witnessed a significant net inflow of permanent residents. Zhuhai's permanent population reached 2.48 million, with an urbanization rate of 90.76% at end-2022.

Zhuhai realized a GDP of RMB423.3 billion in 2023, representing a year-over-year growth rate of 3.8%. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 44.3% and 54.1% of Zhuhai's aggregate GDP, respectively, in 2022. Its fixed asset investment growth rate fell to -13.1% in 2023 from -8.8% in 2022, mainly due to the slump in property investment.

#### Zhuhai's GDP and Fixed Asset Investment

(RMB billion)	2021	2022	2023
GDP	388.2	404.5	423.3
-Primary industry (%)	1.4	1.5	1.6
-Secondary industry (%)	41.9	44.7	44.3
-Tertiary industry (%)	56.7	53.8	54.1
GDP growth rate (%)	6.9	2.3	3.8
Fixed asset investment	216.3	197.3	171.4
Fixed asset investment growth rate (%)	-3.1	-8.8	-13.1
Population (million)	2.5	2.5	2.5

Source: Public information and Lianhe Global's calculations

## Fiscal Condition of Zhuhai

The Zhuhai government's budgetary revenue increased to RMB48.2 billion in 2023 from RMB43.7 billion in 2022, marking a growth of 10.3%, the highest among the Pearl River Delta region. However, the contribution of the tax revenue continued to decrease to 62.2% from 66.4% over the same period. There was a significant decrease in government managed fund income from RMB49.6 billion in 2021 to RMB37.0 billion in 2022 and further to RMB8.7 billion in 2023, mainly due to the fluctuation of land use right transfer income amid challenging property market conditions.

The fiscal self-sufficiency of the Zhuhai government was moderate. Its budget deficit narrowed to 39.3% in 2023 from 72.4% in 2021. However, its government debt increased significantly to RMB132.2 billion at end-2023 from RMB89.1 billion at end-2021, mainly due to the increase in special debt to support a series of major projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 31.2% at end-2023 from 23.0% at end-2021.

<b>Zhuhai's Fiscal Condition (RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Budgetary revenue	44.8	43.7	48.2
Budgetary revenue growth rate (%)	18.2	1.7	10.3
Tax revenue	31.4	29.1	30.0
Tax revenue (% of budgetary revenue)	70.1	66.4	62.2
Government fund income	49.6	37.0	8.7
Transfer payment	11.9	13.7	17.7
<b>Aggregate revenue</b>	<b>108.3</b>	<b>96.0</b>	<b>77.2</b>
Budgetary expenditure	78.7	75.4	67.2
<b>Budget balance<sup>1</sup> (%)</b>	<b>-75.5</b>	<b>-72.4</b>	<b>-39.3</b>

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

Source: Finance Bureau of Zhuhai District and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

ZHG was established in March 1985 under the approval of Zhuhai Economic Special Zone Management Committee. The company underwent several changes of company name and structural adjustments to evolve into its current form. ZHG's operational capacity and strategic positioning were further enhanced following the capital injections and structural refinements afterward.

Zhuhai SASAC approved to transfer 10% of the company's equity to the Guangdong DF in 2021. The company's registered capital increased significantly after Zhuhai SASAC injected RMB15.8 billion to the company in 2021-2022. At end-September 2023, ZHG had a shareholding structure which Zhuhai SASAC and Guangdong DF held 93.51% and 6.49% stake of the company, respectively.

## Strategic Importance and Government Linkage

### Strategic Importance of ZHG to Zhuhai

Zhuhai's municipal state-owned enterprises were reorganized into five major state-owned asset groups, following the Zhuhai government's initiative stated in early 2020 which aimed at optimizing stated-owned capital deployment and streamlining ownership structures.

Among these, ZHG emerged as a prominent player in four key sectors: infrastructure and urban operations, modern finance, high-end services, and strategic emerging industries, which highlighted its regional significance. Within the domain of infrastructure and urban operations, ZHG commands a dominant position, particularly in Zhuhai's real estate sector. ZHG involves in various urban development projects, including industrial park development, urban construction, and municipal facility construction, which underscores its pivotal role in forming the city's landscape and driving economic development. Particularly, ZHG has extensive involvement in nearly 90% of comprehensive urban development in Zhuhai.

Also, ZHG stands out as a key entity in Zhuhai's modern financial sector by possessing a wide range of financial licenses. ZHG facilitates a variety of financial transactions which is vital for economic activities in and around Zhuhai, bolstering its role in Zhuhai's financial ecosystem. Moreover, ZHG extended its strategic importance in Zhuhai by supporting growth in strategic emerging industries. By upgrading industries and fostering cooperation between Guangdong Province and Macau, ZHG plays a pivotal role in advancing Zhuhai's economic and urban development.

ZHG 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. Its substantial contributions to GDP, fixed asset investment and tax revenue underscore its importance within Guangdong's economic landscape. Furthermore, ZHG facilitates the creation of industrial clusters and employment opportunities, which strengthens its impact on the economic and social development in Guangdong and Zhuhai.

### **Strong Linkage with the Local Government**

ZHG's linkage with the local government is strong as the Zhuhai government directly holds the majority ownership of ZHG through Zhuhai SASAC, and is the actual controller of the company. The remaining stake is held directly by the Guangdong DF. The Zhuhai government 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 Zhuhai government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

### **Government Support**

ZHG continued to receive financial subsidies, mainly including operating subsidies and tax breaks, from the local government to maintain its business operation. ZHG received subsidies of RMB177.3 million, RMB538.7 million, RMB479.3 million and RMB323.7 million in 2020, 2021, 2022 and the first nine months of 2023, respectively. The Zhuhai SASAC has increased the company's capital by RMB15.8 billion through capital injections since 2021, thereby improving ZHG's capital strength. In 2022, the company converted its capital surplus into registered capital. As a result, its registered capital was increased to RMB169.2 billion, which enhanced the stability of its equity structure. Additionally, the Zhuhai government continues to transfer equity from other state-owned enterprises to the company gratuitously, exemplified by the transfer of Zhuhai Jiuzhou Holdings Group Co., Ltd. ("Jiuzhou") to ZHG, aiming to integrate resources under ZHG's management. At end-2022, Jiuzhou had total assets of RMB43.0 billion and equity of RMB10.7 billion.

The Zhuhai government implements related policies to ensure the financial security, tax benefits, and other support for ZHG's main business. Given that it is the key entity for urban operation and state-owned asset management in Zhuhai, ZHG has an advantage in acquiring related resources and major projects. We believe ZHG is likely going to receive

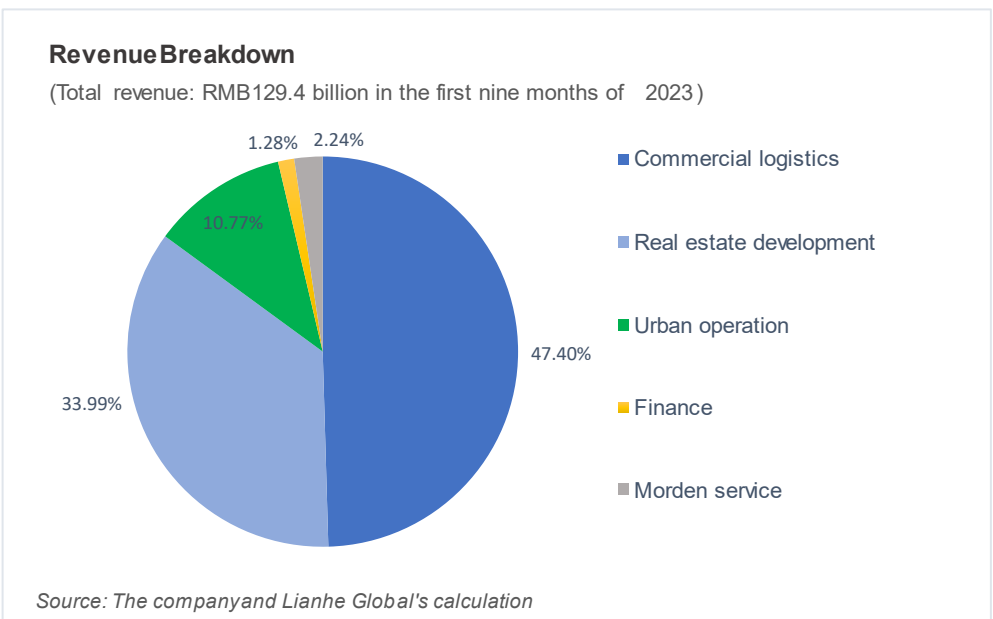
government support, including capital and high-quality assets, equities of other companies, operational subsidies, tax breaks, favorable policies and other kind of government grants to support its daily business operation.

## Business Profile

### The Key Platform Responsible for Real Estate Development and Urban Operation in Zhuhai

ZHG's business mainly focuses on property development, urban operation, commercial logistics, finance, technology development, modern service and other businesses like property leasing, advertising, parking fees, agency services, and engineering management within Guangdong and Zhuhai. It holds a certain degree of monopoly in some of its businesses within the region.

The main sources of operating revenue for ZHG are commercial logistics, real estate development and urban operation. The company's total revenue reached RMB109.2 billion, RMB142.0 billion, RMB157.6 billion and RMB129.4 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The company's gross profit margin in its operating business showed a declining trend, mainly due to the increasing proportion of revenue from commercial logistics, which typically has lower margins, and a decrease in the gross profit margin of the real estate development sector since 2021.



### Real Estate Development

The real estate development sector, led primarily by Zhuhai Huafa Properties Co., Ltd., stands as a core profit source for the company. ZHP has established a strong presence in Zhuhai and strategically positioned itself in key first and second-tier cities, garnering significant market influence and brand recognition. Despite the softening demand in the real estate industry, ZHG managed to sustain growth in operating performance from 2020 to 2022. The revenue of this sector followed a trajectory of RMB47.8 billion, RMB47.8 billion, RMB56.8 billion, and RMB44.0 billion in 2020, 2021, 2022, and the first nine months of 2023, respectively. However, the profit margin exhibited variability over the same period. It slightly



increased from 25.4% in 2020 to 26.6% in 2021, before witnessing a significant drop to 20.6% and 17.0% in 2022 and the first nine months of 2023, respectively.

ZHG encountered a continuous decline in contracted sales area and fluctuating contracted sales amounts, largely due to the weak real estate industry. ZHG's total contracted sales amounted to around RMB126 billion in 2023, ranking 14<sup>th</sup> among national real estate enterprises. Despite its effort in expanding into new regions, the challenging industry landscape may hinder ZHG's sustained contracted sales growth.

While ZHG predominantly focuses on residential development in Zhuhai, it is expanding its footprint beyond Zhuhai, particularly in the Yangtze River Delta region. ZHG's expansion strategies encompass cooperative development, project mergers and acquisitions, and urban renewal projects, although it also has risks associated with cooperative partnerships and acquisitions.

### Urban Operation

ZHG's urban operation business includes a wide range of activities, including primary land development, industrial park establishment, urban construction and architectural design services. ZHG's urban operation business is managed primarily by its subsidiary, namely Zhuhai Huafa Comprehensive Development Co., Ltd. Revenue sources include profit-sharing from land primary development, sales of operation projects, architectural design services and commission-based construction. However, the sector faced challenges as primary land development revenue declined due to reduced land transfer areas.

Operational projects, including exhibition and business clusters, financial centers, and industrial parks, were funded internally and subsequently sold or operated for revenue generation. ZHG also secured numerous land reserves through auctions, contributing to its sizable land bank. Architectural design services significantly contributed to revenue, although the company reported a slight decrease in segment profit margin in 2022 due to a shift towards low-margin civil engineering projects.

Revenue from urban operation segment saw a notable increase from RMB3.6 billion in 2020 to RMB14.8 billion in 2021. This was followed by a slight growth to RMB18.9 billion in 2022 and RMB13.9 billion in the first nine months of 2023. The profit margin for the urban operations sector fluctuated between 2020 and the first nine months of 2023. It decreased from 34.8% in 2020 to 29.81% in 2021, then rose to 34.4% in 2022 before dropping slightly to 31.8% in the first nine months of 2023.

### Commercial Logistics

ZHG operates its commercial logistics business model which purchased goods from upstream suppliers after receiving actual orders from downstream customers. After identifying suitable sources of goods based on downstream customer requirements, the company determines credit terms and limits. After negotiating prices with suppliers based on comparison or negotiation and reaching agreements with both upstream and downstream parties, the company signs trade contracts to fix prices and quantities of goods and minimize risks. The sector mainly involves product categories such as steel, fuel oil, chemicals, copper ore and non-ferrous metals. Nevertheless, the main trading commodities shifted towards non-ferrous metals and copper ore in recent years.

From 2020 to the first nine months of 2023, the revenue from the commercial logistics sector reached RMB50.2 billion, RMB67.0 billion, RMB70.3 billion, and RMB61.3 billion, respectively. However, due to industry characteristics and business models, the segment

gross profit margin remained low at 0.3%, 0.7%, 1.0%, and 0.9%, respectively, during the same period.

## Finance

The company's financial sector encompasses a variety of businesses, including securities, asset management, trading platforms, inclusive finance, commercial factoring, and futures. Over recent years, revenue from financial operations has been consistently increasing. However, the company's financial business is still in a developmental phase, and there is a need to enhance its risk management capabilities, particularly in response to tightening regulatory and compliance policies.

The primary entities operating in the financial sector are Zhuhai Huafa Investment Holding Group Co. Ltd. ("HIH") and Zhuhai Huafa Group Finance Co. Ltd. HIH has evolved into a comprehensive financial investment holding group. Its diverse businesses include securities, asset management, trading platforms, inclusive finance, commercial factoring, and futures. Additionally, ZHG holds stakes in various financial institutions, such as Zhuhai CR Bank, Zhuhai Rural Commercial Bank, Xiamen International Bank, and Hengqin Huatong Financial Leasing etc.

## Other Operational Businesses

In addition to the businesses above, the company also operates other businesses including modern services and technology industry development, making the company's income structure more diversified while forming a better complement to the company's overall income.

## 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>2023.9</b>
Total Asset	487,783	577,423	650,404	715,817
Equity	134,273	150,318	168,525	162,881
Debt	224,329	261,762	299,753	336,055
Debt / (Debt + Equity) (%)	62.6	63.5	64.0	67.4
LT Debt	138,047	179,459	207,384	210,686
LT Debt / (LT Debt + Equity) (%)	50.7	54.4	55.2	56.4

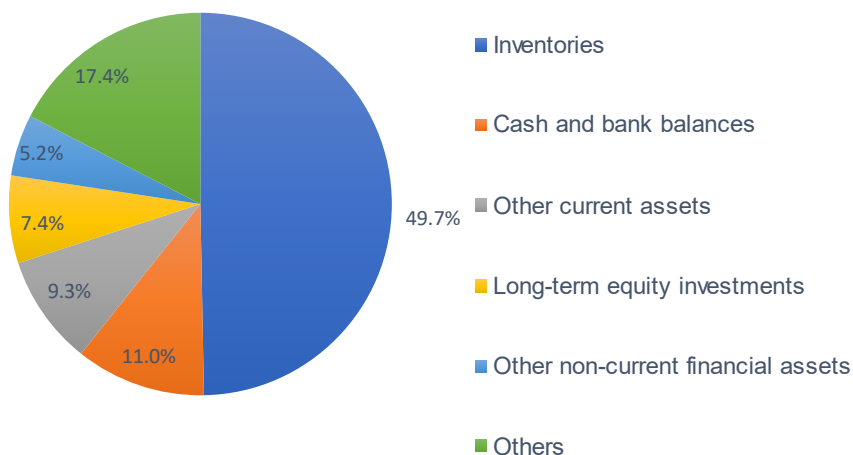
*Source: Company information and Lianhe Global's calculations*

ZHG's total assets showed a continuous growth in the past few years, with a growth rate of 18.4%, 12.6% and 10.1% in 2021, 2022 and first nine months of 2023, respectively, and reached RMB715.8 billion at end-September 2023. The increase of ZHG's total assets was largely due to its inventories, which have steadily increased in tandem with the expansion of the company's urban operation and real estate development business. ZHG's assets mainly consisted of inventories, cash and bank balances, other current assets and investment properties. ZHG had large proportion of current assets (76.4% at end-September 2023), and overall asset liquidity was moderate, primarily due to the large proportion of inventories and investment properties. ZHG's inventory saw a rapid growth from 2020 to end-September 2023, with a compound annual growth rate of 8.9%. It amounted to RMB355.4 billion at end-September 2023, showing a 11.2% increase comparing to end-2022.



### Asset Breakdown

(Total assets: RMB715.8 billion at end-September 2023)



Source: The company and Lianhe Global's calculation

A large amount of ZHG's asset has been pledged to secure bank loans and general banking facilities, including inventories, investment properties and fixed assets, which reached RMB97.0 billion at end-September 2023. The pledged asset accounted for 59.6% of the company's net assets at end-September 2023, which may limit the company's financial flexibility and asset liquidity.

ZHG's financial leverage (total liabilities to assets) reached 72.5%, 74.0%, 74.1% and 77.2% at end-2020, end-2021, end-2022 and end-September 2023, respectively, representing an upward trend. We expect the financial leverage of the company will remain stable. ZHG's total adjusted debt increased moderately from RMB261.8 billion at end-2021 to RMB336.1 billion at end-September 2023, with short-term debt accounting for 37.3% of the total debt. The total debt ratio and long-term debt ratio increased to 67.4% and 56.4% at end-September 2023, respectively.

The financing structure of ZHG illustrates a multifaceted approach encompassing various debt instruments and guarantees to support its financial operations. ZHG heavily relies on financial institution borrowings and bonds, indicating a substantial reliance on traditional debt channels for capital procurement. However, there is diversification to its financing mix, including asset securitization, short-term investment instruments, and interbank borrowings. Additionally, ZHG is engaged in innovative financing methods such as sale and repurchase agreements and debt financing plans, demonstrating its adaptability to market dynamics. On the guarantee front, a combination of credit-based and asset-backed securities is utilized, reflecting a balanced risk management strategy. ZHG mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its real estate development and infrastructure-related projects under construction and to be constructed in the future.

### Debt Servicing Capability

The liquidity of ZHG was sufficient. At end-September 2023, ZHG had an unrestricted cash balance and unused credit facilities of RMB70.1 billion and RMB268.1 billion, respectively, compared with its debt due within one year of RMB125.4 billion. Besides, ZHG employs a multifaceted financing strategy, which utilizes traditional debt channels (bank loans and bond issuance) alongside innovative methods like asset securitization and sale and



repurchase agreements to support its capital-intensive projects, debt repayment and business operations, as well as maintaining a balanced risk management approach.

## 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 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 upgrade or downgrade 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 credit committee vesting processes. 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 circumstance 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 fee 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 entity nor its related party 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 relies 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 parts, 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 2024.