

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Haining Jianshan New Area Development Co., Ltd.

HONG KONG, 12 July 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Haining Jianshan New Area Development Co., Ltd. (“HJNAD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Haining City, Jiaxing City (“Haining government”) would provide strong support to HJNAD if needed, in light of its majority ownership of HJNAD, HJNAD’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for state-owned asset management and infrastructure construction in Haining City, Jiaxing City (“Haining”), especially in Haining Economic Development Zone (“Haining EDZ”) and Haining Jianshan New District (“Jianshan”), and the linkage between the Haining government and HJNAD, 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 Haining government may face significant negative impact on its reputation and financing activities if HJNAD encounters any operational and financial difficulties.

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

Key Rating Rationales

Haining Government’s Ownership and Supervision: The Haining government holds the majority ownership of HJNAD through State-owned Assets Supervision and Administration Office of Haining (“Haining SASAO”)’s subsidiaries, Zhejiang Xinghai Holding Group Co. Ltd. and Haining Asset Management Company. The Haining 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 Haining 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 Haining and Strategic Alignment: HJNAD, as the key LIDC in Haining, is the sole entity responsible for land consolidation and development, infrastructure investment and construction and state-owned asset management in Haining EDZ and Jianshan with strong regional advantage. The company’s business operation plays a significant role in improving infrastructure and promoting local industrial development. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: HJNAD received operational and financial support from the Haining government. HJNAD received a total subsidy amount of RMB845.8 million from 2021 to 2023. The Haining government continued to inject capital, equities of other companies and other kinds of assets into HJNAD to expand its asset size and diversify its business. Besides, the Haining government will provide policy support to the company to ensure the operation of its business. Given that it is the sole entity for land development and infrastructure construction in Haining EDZ and Jianshan, HJNAD has an advantage in acquiring related resources and major projects. We believe HJNAD is likely to receive government support to support its daily business operation.

HJNAD's Financial and Liquidity Position: HJNAD's total assets showed a continuous growth trend in the past few years and reached RMB55.3 billion at end-2023, as the company actively participated in project development in Haining EDZ and Jianshan. The current assets of HJNAD accounted for 63.3% of the total assets at end-2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and investment properties. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

HJNAD's financial leverage (total liabilities to total assets) remained stable at 65%-69% in the past three years. Its adjusted debt increased to RMB33.2 billion at end-2023 from RMB21.2 billion at end-2021. HJNAD's liquidity was moderately tight. At end-2023, HJNAD had a cash balance of RMB3.4 billion (including restricted cash of RMB85.3 million), compared with its debt due within one year of RMB9.7 billion. Having said that, HJNAD has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. The company has a total credit line of RMB30.0 billion, of which RMB9.5 billion was unused at end-2023. HJNAD also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Haining: Haining is a county-level city directly under the jurisdiction of Zhejiang Province and managed by Jiaxing City. Owing to Covid's disruption, Haining's GDP growth rate fluctuated in the past three year, which was 7.0%, 0.7% and 8.0% in 2021, 2022 and 2023, respectively. Haining's GDP reached RMB131.8 billion in 2023, which was ranked 1st among 7 districts and counties under the jurisdiction of Jiaxing. Haining was also ranked 16th among China's top 100 counties in comprehensive strength in 2023.

Haining government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. Haining government's budgetary revenue rebounded to RMB10.0 billion in 2023 from RMB9.5 billion in 2022. Meanwhile, the contribution of tax revenue in budgetary revenue remained relatively stable at 89%-94% in 2021-2023. The fiscal self-sufficiency rate of Haining government was relatively high and it recorded a budget deficit of 21.2% in 2023. On the other hand, Haining's government fund income slumped to RMB6.1 billion in 2023 from RMB19.7 billion in 2022, owing to the downturn in property market. The outstanding debt of the Haining government continued to grow due to the new issuance of special debts to support project development, mainly infrastructures and railway projects. Its

fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 139.8% at end-2023 from 71.4% at end-2021.

Rating Sensitivities

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

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