

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangshan Economic Development Zone Construction Investment Group Co., Ltd.

HONG KONG, 3 July 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Jiangshan Economic Development Zone Construction Investment Group Co., Ltd. (“JEDZC” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jiangshan District, Quzhou City (“Jiangshan government”) would provide very strong support to JEDZC if needed, in light of its full ownership of JEDZC, JEDZC’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and land development in Jiangshan City, Quzhou City (“Jiangshan”), especially in the Jiangshan Economic Development Zone, Zhejiang Province (“Jiangshan EDZ”) and the linkage between the Jiangshan government and JEDZC, 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 Jiangshan government may face significant negative impact on its reputation and financing activities if JEDZC encounters any operational and financial difficulties.

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

Key Rating Rationales

Jiangshan Government’s Ownership and Supervision: The Jiangshan government holds the full ownership of JEDZC through the Finance Bureau of Jiangshan City’s (“Jiangshan FB”) fully-owned subsidiary, Jiangshan City State-owned Assets Management Co. Ltd. (“JCSAM”). The Jiangshan government is the actual controller of the company. It has the final decision-making authority and supervises the company through, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Jiangshan 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 Jiangshan and Strategic Alignment: JEDZC, as an important LIDC in Jiangshan, is primarily responsible for the investment, development and operation of infrastructure construction projects in the Jiangshan EDZ. Serving as the sole entity in charge of infrastructure projects in Jiangshan EDZ, JEDZC is mainly engaged in road and pipeline projects, supporting facilities development, land development and consolidation, sewage treatment, and other infrastructure related projects with strong regional advantages. In

addition, the company assumes a vital position in the industrial development in the region by taking the responsibility of industrial park development and business attractions and investment. JEDZC plays an important role in promoting the economic and social development of Jiangshan. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: JEDZC received operational and financial support from the Jiangshan government. It received a total subsidy amount of RMB300.2 million from 2021 to 2023. The Jiangshan government continued to inject capital, real estate assets and other kinds of assets into JEDZC to expand its asset size and diversify its business. Besides, the government will repurchase some infrastructure projects and provide policy supports to JEDZC to ensure its business operation. Given that it is the key entity for infrastructure construction and land development in the Jiangshan EDZ, JEDZC has an advantage in acquiring related resources and major projects. We believe JEDZC is likely going to receive government support to support its daily business operation.

JEDZC's Financial and Liquidity Position: JEDZC's total assets showed a continuous growth trend in the past few years and reached RMB22.4 billion at end-2023, as the company actively participated in the industrial park's investment and external financing activities. The current assets of JEDZC accounted for 85% of the total assets at end-2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and investment properties. JEDZC's financial leverage (total liabilities to total assets) increased to 60.7% and its adjusted debt increased to RMB11.3 billion at end-2023 from RMB1.3 billion at end-2021. JEDZC's liquidity was tight. At end-2023, JEDZC had a cash balance of RMB464.7 million, compared with its debt due within one year of RMB1.5 billion. Having said that, JEDZC 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 had an unused bank facility of RMB6.1 billion. JEDZC also has other financing channels, such as non-traditional financing and bond issuance, to support its debt repayment and business operations.

Economy and Fiscal Condition of Jiangshan: Jiangshan is a county-level city of Quzhou City, Zhejiang Province ("Quzhou"), and is located in the southern part of Quzhou. Jiangshan's economy kept moderate growth in the past three years. Its GDP amount increased from RMB36.6 billion in 2021 to RMB40.6 billion in 2023, with its GDP growth rate recording 8.5%, 4.6% and 6.8% in 2021, 2022 and 2023, respectively. The economic structure of Jiangshan was stable, which was mainly fueled by the secondary and tertiary industries, accounting for 43.2% and 50.6% of its GDP in 2023, respectively.

The aggregate fiscal revenue of the Jiangshan government was mainly derived from the budgetary revenue and transfer payment from the higher government. In 2021-2023, the budgetary revenue of the Jiangshan government increased from RMB2.6 billion to RMB3.7 billion, and the contribution of tax revenue declined from 88.8% to 60.7% over the same period. The financial self-sufficiency of Jiangshan was weak but improving, and its budget deficit narrowed to 145.7% in 2023 from 222.8% in 2021. Due to the drop in land sales revenue amid

weak property market, the government fund income of the Jiangshan government decreased from RMB7.5 billion in 2021 to RMB3.0 billion in 2023. The transfer payment from the higher government is another important part of the aggregate revenue, which increased from RMB3.4 billion in 2021 to RMB4.1 billion in 2023. The Jiangshan government's fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, rose considerably to 146.3% at end-2023 from 82.5% at end-2021, mainly due to the increase in special debt.

Rating Sensitivities

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

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