

**Lianhe Global has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Wuhan Optics Valley Financial Holding Group Co., Ltd.**

HONG KONG, 22 August 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A’ global scale Long-term Issuer Credit Rating to Wuhan Optics Valley Financial Holding Group Co., Ltd. (“WOVFH” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Management Committee of Wuhan Donghu New Technology Development Zone (“the Management Committee”), the de facto local government of Wuhan Donghu New Technology Development Zone (“Donghu NTZ”), would provide very strong support to WOVFH if needed, in light of its indirect majority ownership of WOVFH, WOVFH’s strategic importance as a key investment platform in Donghu NTZ, and the linkage between the local government and WOVFH, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if WOVFH encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The management committee indirectly owns 99.61% shares of WOVFH, and is the company’s actual controller. The local government has strong control and supervision over the company, including management appointment, decision on its strategic development, and supervision of its major investment and funding plans. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise its operating performance and financials on a periodic basis.

**Strategic Importance and Alignment:** WOVFH is a key investment platform in Donghu NTZ. The company is responsible for the investment in funds such as Hubei Integrated Circuit Fund, National Integrated Circuit Industry Investment Fund (Phase II), and Yangtze Memory Phase II projects to support the development of the state-of-the-art technologies, and in high technology companies within the region. It plays an important role in promoting high and new technology industries’ development in Donghu NTZ. Its development strategy has been aligned with the local government’s economic and social development plans.

**Strong Government Support:** The local government provides strong support to WOVFH. Between 2021 and 2023, the local government injected cash capital amounting to approximately RMB10 billion into WOVFH through its shareholders to support its investment. The company also received ongoing operational subsidies from the local government. We

expect the support from the local government to remain intact given WOVFH's strategic importance in Donghu NTZ.

***Economy and Fiscal Condition of Local:*** Donghu NTZ, also known as the Optics Valley of China, was established in 1988 in Wuhan, the capital city of Hubei Province. It is one of the first batch National High-tech Zones of China and is famous for being a National Optoelectronic Information Industrial Base. There are 42 higher education institutions located in Donghu NTZ, supporting its new technology industries' development.

In recent years, Donghu NTZ is constructing two world-class trillion-yuan-level industry clusters, namely the "Optics, IC, Displays, Terminals and Internet" cluster and the biomedicines cluster. Donghu NTZ recorded GDP of RMB276.8 billion in 2023, representing an annual growth of 4.7%. Its GDP scale was ranked first among all Wuhan's jurisdictions.

The budgetary revenue of the Donghu NTZ increased from RMB19.5 billion in 2021 to RMB20.6 billion in 2023. The financial self-sufficiency rate of Donghu High-tech Zone was improving, with the budget deficit narrowing to 0.6% in 2023 from 9.0% in 2021. However, the government fund income, as another important part of aggregate revenue, declined from RMB26.4 billion in 2021 to RMB17.8 billion in 2023, owing to the weak property market.

The outstanding amount of the Donghu High-tech Zone government's debt continued to grow in the past few years. By the end of 2023, the Donghu NTZ's outstanding debt was RMB48.9 billion, up from RMB37.5 billion at end-2021. Its government debt ratio, as measured by total government debt outstanding/aggregate revenue, was elevated to 101.6% at end-2023 from 72.3% at end-2021, mainly due to the increase in special debt to support public projects and investments.

***WOVFH's Financial and Liquidity Position:*** WOVFH's total asset grew significantly by 150% to RMB77.7 billion at end-March 2024 from RMB31.1 billion at end-2021, as the company actively invested in funds and technology companies in Donghu NTZ. The company relied on both borrowings and equity injections to fund its investments. Its total debts increased by 358% to RMB19.7 billion from RMB4.3 billion over the same period. Yet the company's financial leverage, as measured by total debts to capitalization, stayed at a manageable level of 30% at end-March 2024, owing to multiple capital injections from the government.

The short-term debt servicing pressure of WOVFH was moderate. At end-March 2024, the company had cash balance of RMB6.7 billion as compared to short-term debts due within one year of RMB2.2 billion. In addition, the company has access to various financing channels, including bank borrowings, bond issuance and other non-traditional financings, to support its operations and debt repayments. At-end March 2024, WOVFH has unused credit lines amounting to RMB5 billion.

## **Rating Sensitivities**

We would consider downgrading WOVFH's rating if (1) there is perceived weakening in support from the local government, particularly due to its reduced strategic importance with

diminished government functions, or (2) there is a significant reduction of the local government's ownership of WOVFH, or (3) there is a downgrade in our internal credit assessment on the local government.

We would consider upgrading WOVFH's rating if there is an upgrade in our internal credit assessment on the local 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 WOVFH's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 31 July 2024, 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  
Director  
(852) 3462 9582  
[roy.luo@lhratingsglobal.com](mailto:roy.luo@lhratingsglobal.com)

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

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

Media Contact  
Alice Wang  
(852) 3462 9568  
[alice.wang@lhratingsglobal.com](mailto:alice.wang@lhratingsglobal.com)

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