

Credit Opinion

15 May 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

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Wuhan Optics Valley Industrial Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Wuhan Optics Valley Industrial Investment Co., Ltd., with stable outlook

Summary

The A_g- long-term credit rating of Wuhan Optics Valley Industrial Investment Co., Ltd. ("OVII") is underpinned by the Company's (1) investment portfolio in line with the industrial development planning of Wuhan East Lake New Technology Development Zone ("East Lake NTDZ"); and (2) access to funding from banks and bond market.

However, the rating is constrained by the Company's (1) moderately high investment concentration and relatively weak asset liquidity; and (2) weak profitability and debt-servicing ability.

The rating also reflects a high likelihood of support from the local government and its parent Hubei Science & Technology Investment Group Co., Ltd. ("HSTI") when needed, which is based on the Company's (1) full ownership by HSTI and ultimate control by the East Lake NTDZ Management Committee; (2) significance in promoting the development of strategic emerging industries in the East Lake NTDZ; and (3) solid track record of receiving support from the local government and HSTI, including subsidies, capital injections and loan guarantees.

The stable outlook on OVII's rating reflects our expectation that the Company will continue to receive solid support from the local government and its controlling shareholder. We also expect the Company to maintain a stable and prudent investment strategy over the next 12 to 18 months.

Rating Drivers

- Investment portfolio in line with East Lake NTDZ's development strategy
- Moderately high investment concentration and relatively weak asset liquidity
- Weak profitability and debt-servicing ability
- Access to funding from banks and bond market
- High likelihood of support from the local government and its controlling shareholder

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the local government and its controlling shareholder increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's credit metrics improve, for example, lower debt leverage and higher profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the local government and its controlling shareholder decreases; (2) the performance of the Company's investment portfolio materially deteriorates; or (3) the Company shows weakened access to funding and eroded liquidity profile.

Key Indicators

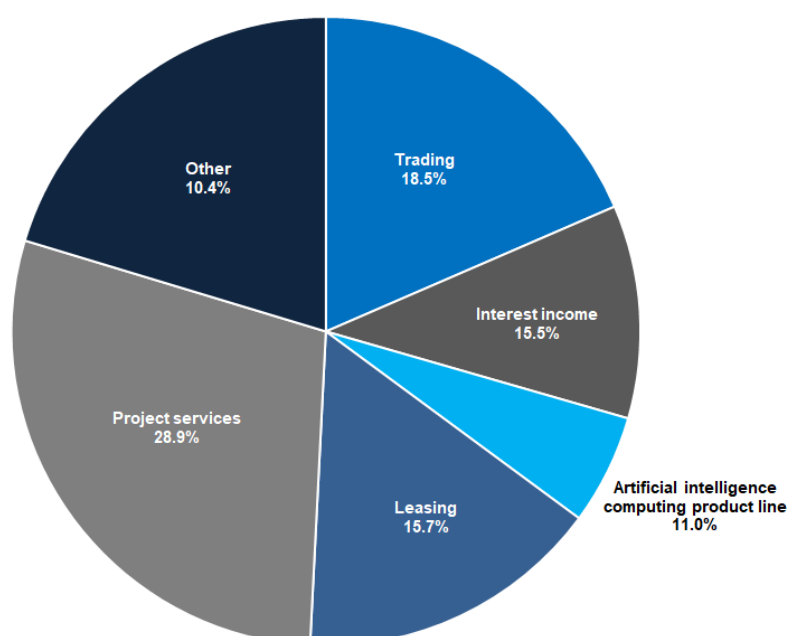
Consolidated Level	2022FY	2023FY	2024FY
Total Assets (RMB million)	23,495.2	24,742.7	27,126.4
Total Equity (RMB million)	14,300.5	14,659.8	15,417.3
Total Revenue (RMB million)	81.5	85.1	161.7
Net Profits (RMB million)	227.0	140.9	202.5
Return on Equity (%)	1.6	1.0	1.4
Holding Company Level	2022FY	2023FY	2024FY
Total Assets (RMB million)	19,845.1	20,389.5	20,901.5
Total Equity (RMB million)	11,299.0	11,079.8	11,518.5
Return on Equity (%)	-0.9	-1.3	0.4
Debt/Investment Income (x)	36.8	136.5	18.5
Cash/Short-term Debt (x)	2.3	0.2	0.1

All ratios and figures are calculated using CCXAP's adjustments.

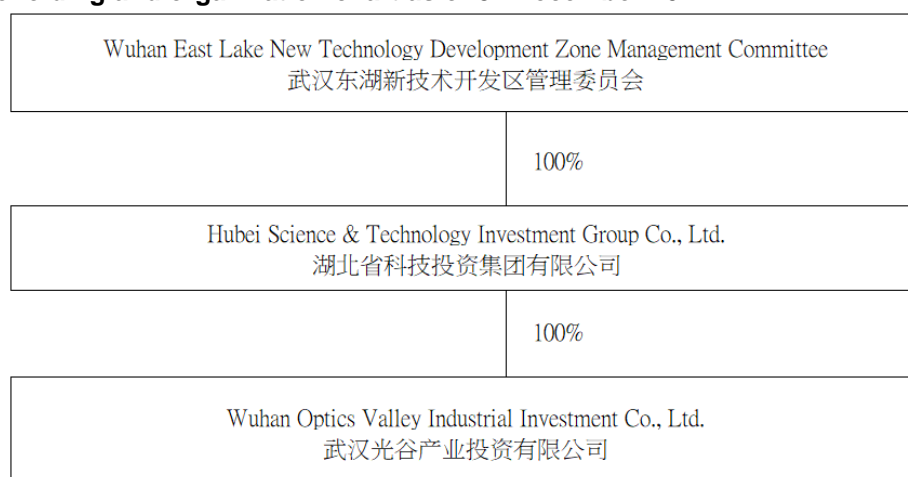
Source: Company information, CCXAP research

Corporate Profile

Established in 2016, OVII is a wholly-owned subsidiary of HSTI, the primary infrastructure construction and industrial investment entity of East Lake NTDZ. The Company operates as the core platform responsible for HSTI's industrial investment business. Leveraging on HSTI's extensive resources, the Company mainly invests in the strategic emerging industries of East Lake NTDZ through direct equity investment and fund investment. As of 31 December 2024, OVII was ultimately controlled by the East Lake NTDZ Management Committee.

Exhibit 1. Revenue structure in 2024

Source: Company information, CCXAP research

Exhibit 2. Shareholding and organization chart as of 31 December 2024

Source: Company information, CCXAP research

Rating Considerations

Investment portfolio in line with the industrial development planning of East Lake NTDZ, but with moderately high investment concentration and relatively weak asset liquidity

As the most important industrial investment platform under HSTI, the Company focuses on investments in strategic emerging industries aligned with the East Lake NTDZ's industrial development planning through direct equity investments and fund investment, with good investment management system. However, the investment concentration is moderately high, with top three investments accounting for about 70% of investment portfolio and the underlying investment assets are concentrated in Wuhan City. Moreover, the Company's asset liquidity is relatively weak and the market value of listed companies is highly volatile.

East Lake NTDZ, also known the Wuhan East Lake High-tech Development Zone, was founded in 1988 and was approved to be the first national high-tech Industrial Development Zone by the State Council in 1991. In 2001, it was approved by the State Council as a state-level optoelectronic industry base. Optical-electronics, telecommunications, and equipment manufacturing are the core industries of East Lake NTDZ.

The Company's direct equity investment is closely linked with the industrial layout of the East Lake NTDZ, covering multiple industries including information technology, life sciences, energy conservation & environmental protection, and high-tech services. As of 30 September 2024, the Company had participated in 22 direct equity investment projects, with total investment costs of RMB11.0 billion and cumulative investment gains of RMB1.7 billion. However, its investment is concentrated in TCL Technology Group Corporation ("TCL Technology", Stock Code: 000100.SZ) and Wuhan China Star Optoelectronics Semiconductor Display Technology Co., Ltd. ("T4 Project"), which totally accounted for about 60% of its investment portfolio at end-2024Q3. According to an agreement, TCL Technology will repurchase the equity interests in T4 Project from the Company before the end of 2026. The Company has also invested in industrial technology research institutes co-established with leading Wuhan universities to facilitate industry-academia-research integration. As of 30 September 2024, the Company had invested in eight industrial technology research institutes, with a cumulative investment of RMB496.0 million and exit returns of RMB65.8 million. Given that the direct equity investment is moderately concentrated and the exit returns are dependent on the repurchase progress of T4 Project, the future investment returns are subject to uncertainties.

The Company's fund investment portfolio includes industrial investment funds and private equity investment funds, primarily focusing on strategic emerging industries of East Lake NTDZ. As of 30 September 2024, the Company had invested into 20 funds, including 11 industrial investment funds and 9 private equity investment funds. Under the guidance of the East Lake NTDZ Management Committee, the Company invests in 11 industrial investment funds as a limited partner, with contributed amount of RMB8.7 billion and cumulated investment returns of RMB622.0 million at end-2024Q3. These industrial funds primarily target strategic emerging industries, including optical communication technology, integrated circuits, advanced display manufacturing, high-end equipment, artificial intelligence, cloud computing, and big data. The Company also manages 9 private equity investment funds as a general partner, with contributed amount of RMB2.3 billion at end-2024Q3. However, the Company's fund investments have long investment period, and exit returns are susceptible to the profitability of the invested companies.

Moreover, the Company's asset liquidity is relatively weak. As of end-2024, the Company's assets at holding company level were predominantly composed of long-term equity investments and trading financial assets, accounting for 92.0% of its total assets. At present, the proportion of listed companies (mainly TCL Technology) is about 10%-15% of its investment portfolio, and the market prices of the listed companies have been volatile in recent years.

Weak profitability and debt-servicing ability

The Company primarily generates revenue from interest income, while its profits are mainly derived from fair value changes and investment returns, though both revenue and profit remain modest in scale. In addition, the Company's investment income is closely tied to the profitability and repurchase progress of TCL Technology and the T4 Project. In recent years, its financial expenses have increased steadily along with growing debt scales, significantly eroding profitability. As a result, the Company demonstrates weak profitability, with low return on equity of -0.9%, -1.3% and 0.4%, and volatile investment income to interests ratio of 0.6x, 0.1x and 1.1x from 2022 to 2024 at the holding company level.

Owing to business expansion, OVII's debt burden has been growing moderately in the past years. The Company's total debt at the holding company level increased from RMB8.3 billion at end-2022 to RMB9.1 billion at end-2024. Nonetheless, with improving investment returns, its total debt to investment income ratio decreased from 36.8x to 18.5x in the same period at the holding company level. In addition, the Company has a moderate short-term repayment pressure. As of 31 December 2024, the Company's short-term debt accounted for about 32.2% of total debt, and its cash to short-term debt ratio was 0.1x at the holding company level, indicating insufficient cash to service its short-term debts. Considering its ongoing large-scale investments, we expect the Company will continue to rely on external financing to fulfil its future capital needs, resulting in an increase of debt burden.

Access to funding from banks and bond market

The Company has access to funding from banks and bond market. It maintains a good relationship with diversified domestic commercial banks. As of 30 September 2024, it had obtained total credit facilities of RMB14.2 billion, with available amount of RMB3.9 billion, indicating reasonable standby liquidity. The Company also has access to debt capital markets. As of end-2024, the Company's had outstanding onshore bonds of RMB3.6 billion. The Company plans to tap the offshore bond market to broaden its funding channels.

External Support

High likelihood of support from the local government and its controlling shareholder

We expect OVII has a high likelihood of receiving support from the local government and HSTI in times of need. This expectation incorporates our considerations of the Company's (1) full ownership by HSTI and ultimate control by East Lake NTDZ Management Committee; (2) significance in promoting the development of strategic emerging industries in East Lake NTDZ; and (3) solid track record of receiving support from the local government and HSTI, including subsidies, capital injections and loan guarantees.

As the controlling shareholder of OVII, HSTI is the most important infrastructure construction, industrial park construction, and industrial investment entity in the East Lake NTDZ, with strong support from the local government. The Company is the strategic industrial investment platform under the management of HSTI, assuming the role of cultivating local emerging industries in East Lake NTDZ, such as information technology, life sciences, energy conservation & environmental protection, and high-tech services. As of 31 December 2024, its consolidated assets and revenue amounted to RMB27.1 billion and RMB161.7 million, accounting for 8.2% and 3.5% of HSTI's total assets and revenue respectively.

HSTI maintains a high degree of control over OVII's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to HSTI.

Furthermore, OVII has a high linkage with the local government. Most of the Company's investment projects are government-guided, playing a vital role in advancing the development of strategic emerging industries in the East Lake NTDZ. The Company's ownership structure and business operations are closely aligned with the East Lake NTDZ Management Committee's and the region's future development direction.

OVII receives solid support from HSTI and the local government, given its strategic and economic importance in industrial investment in East Lake NTDZ. In 2021, HSTI injected capital of RMB316.0 million into the Company. In 2024, HSTI agreed to inject capital of RMB3.0 billion into the Company, increasing its registered capital to RMB13.0 billion. In 2024, HSTI transferred the equity interests of Wuhan Optics Valley Health Industry

Investment Co., Ltd. to OVII. Additionally, HSTI provides loan guarantees to the Company, facilitating its external financing. For example, the onshore bond of RMB1.0 billion issued by the Company in 2022 was guaranteed by HSTI. Furthermore, the Company and HSTI have received subsidies from the local government to support their daily operations.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

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