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## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Guocheng (Zhejiang) Industrial Development Co., Ltd., with stable outlook.**

Hong Kong, 6 September 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Guocheng (Zhejiang) Industrial Development Co., Ltd. (“GZID” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of GZID is underpinned by the Company's (1) status as the important industrial investment entity in Anji Economic and Development Zone (“Anji EDZ”); and (2) good market position in property leasing and equity investment. However, the rating is also constrained by the Company's (1) small revenue scale and moderate profitability, with uncertainty in equity investment return; and (2) increasing debt burden and modest credit metrics.

The rating also reflects GZID's high likelihood of receiving support from its parent, Zhejiang Liangshan Hi-tech Holding Group Co., Ltd. (“ZLHH”), given its strong parent-subsidary linkage with ZLHH. It also reflects a high likelihood of receiving support from Anji EDZ Management Committee, given its (1) ultimate ownership and control by the local government; (2) status as important industrial investment entity in Anji EDZ; and (3) track record of receiving government support.

### **Corporate Profile**

Founded in 2009, GZID is an important state-owned industrial investment entity in Anji EDZ, which carries out equity investment and property leasing. Besides, the Company also conducts trading and provides factoring services in the region. As of 31 March 2024, Zhejiang Liangshan Intelligent Control Technology Industry Investment Group Co., Ltd. directly held 100% of the Company's shares and Anji EDZ Management Committee was its ultimate controller.

### **Rating Rationale**

#### **Credit Strengths**

**Status as the important industrial investment entity in Anji EDZ.** GZID is an important state-owned industrial investment entity in Anji EDZ, mainly responsible for investment attraction, equity investment, and asset operation in the region. Aligned with the local industrial development plans, the Company primarily participates in equity investment and property leasing in Anji EDZ, making large contributions to local industrial development.

**Good market position in property leasing and equity investment.** GZID's equity investment business mainly involves establishing equity funds. The Company's equity investment focuses on four emerging industries in Anji EDZ, including healthcare, information technology, equipment manufacturing and new materials. Although these types of investments expose the Company to certain investment risks, they are policy-driven to promote regional industrial development. Besides, GZID also conducts property leasing and construction business in Anji

EDZ. The local government transferred two industrial parks to the Company in 2023 and GZID leases the plants to the companies settled in Anji EDZ.

### Credit Challenges

**Small revenue scale and moderate profitability, with uncertainty in equity investment return.** Since most of its businesses has only started in recent years, GZID's operating income is relatively small. The Company's revenue increased from RMB110.0 million in 2021 to RMB135.8 million in 2023. GZID's profitability is moderate, as reflected by the high EBIT margin and the low return on total assets. However, due to the low return on the equity investments, the Company's return on total assets is low. Given uncertainty in equity investment return, we expect the Company's profitability will remain modest in the next 12 to 18 months.

**Increasing debt burden and modest credit metrics.** With large capital expenditure incurred from the equity investment and industrial plant construction, GZID's debt burden has been increasing in recent years. GZID has modest stand-alone credit profile. As the Company's debt burden and financing costs increased, its total debt/EBITDA ratio increased from 11.0x in 2021 to 23.8x in 2023 and EBITDA/total interest ratio decreased from 3.0x to 1.8x over the same period.

### Rating Outlook

The stable outlook on GZID's rating reflects our expectation that the Company will maintain regional competitiveness in industrial investment and property leasing business in Anji EDZ. We also expect that as a local state-owned enterprise, the Company will receive ongoing support from the local government and its shareholders.

#### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of shareholder and government support for the Company increases; and (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and leverage.

#### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of shareholder and government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in debt leverage or liquidity.

### Rating Methodology

The methodology used in this rating is the Rating Methodology for [Rating Methodology for General Corporate \(April 2019\)](#).

### Regulatory Disclosures

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