

Credit Opinion

30 May 2023

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

Analyst Contacts

Peter Chong +852-2860 7124

Senior Analyst

peter_chong@ccxap.com

Jonathan Kwong +852-2860 7132

Assistant Analyst

jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Zhejiang Xinchang Investment Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Zhejiang Xinchang Investment Development Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Zhejiang Xinchang Investment Development Co., Ltd (“ZXID” or the “Company”) reflects (1) Xinchang County Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Xinchang County Government’s capacity to provide support reflects Xinchang County’s ongoing economic growth, with relatively good investment potential and fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant strategic role as the largest state-owned enterprise in Xinchang County; (2) high sustainability for public policy projects; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) high debt leverage and moderate asset quality.

The stable outlook on ZXID’s rating reflects our expectation that Xinchang County Government’s capacity to provide support will remain stable, and the Company will maintain its important public role in infrastructure construction in Xinchang County over the next 12 to 18 months.

Rating Drivers

- Dominant strategic role as the largest state-owned enterprise in Xinchang County
- High sustainability for the public policy projects
- Medium exposure to commercial activities
- Good track record of receiving government payments
- Diversified access to funding
- High debt leverage and moderate asset quality

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xinchang County Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as material decrease in exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Xinchang County Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in importance of its policy role, material decrease in government payments, or deteriorated debt management.

Key Indicators

| | 2020FY | 2021FY | 2022FY |
|------------------------------|--------|--------|--------|
| Total Asset (RMB billion) | 82.8 | 111.4 | 145.2 |
| Total Equity (RMB billion) | 29.3 | 39.4 | 51.3 |
| Total Revenue (RMB billion) | 3.6 | 4.6 | 5.1 |
| Total Debt/Total Capital (%) | 62.7 | 63.0 | 63.1 |

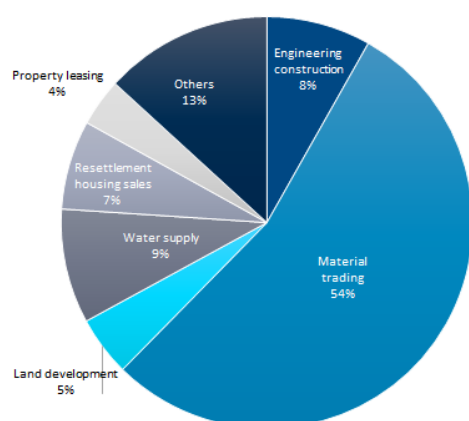
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Established in 2003, ZXID is the largest local infrastructure investment and financing company ("LIIFC") by total assets in Xinchang County. It plays the most important role in the local public policy activities, such as infrastructure construction, land consolidation, water supply and sewage treatment, and public transportation. Besides, the Company also engages in some commercial activities such as engineering construction, material trading and property leasing. As of 31 December 2022, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Commission Office of the People's Government of Xinchang County ("Xinchang SASAC").

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Xinchang County Government has a strong capacity to provide support given its ongoing economic growth, with relatively good investment potential and fiscal stability.

Shaoxing City was the fourth largest prefecture-level city in terms of gross regional product ("GRP") as of end-2022, in Zhejiang Province with abundant tourism resources and well-developed industries. In 2022, it recorded a GRP of RMB735.1 billion with a year-over-year ("YoY") growth rate of 4.4%, which higher than provincial level. Shaoxing City has developed textile, machinery, and food industry as its pillar industries. Currently, new industries such as modern equipment, modern medicine, electronic information, and new materials also grow rapidly. Affected by the tax refund policy, Shaoxing Municipal Government's general budgetary revenue decreased from RMB60.4 billion in 2021 to RMB54.9 billion in 2022. The fiscal self-sufficiency was relatively good with an average fiscal balance ratio (general budgetary revenue/general budget expenditure) of 77.7% over the past three years. Shaoxing Municipal Government's outstanding debt increased to RMB168.0 billion, accounting for 22.9% of GDP.

Exhibit 2. Key economic and fiscal indicators of Shaoxing City

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 600.1 | 679.5 | 735.1 |
| GRP Growth (%) | 3.3 | 8.7 | 4.4 |
| General Budgetary Revenue (RMB billion) | 54.4 | 60.4 | 54.0 |
| General Budgetary Expenditure (RMB billion) | 66.7 | 71.5 | 80.5 |
| Local Government Debt (RMB billion) | 124.8 | 143.7 | 168.0 |

Source: Statistic Bureau of Shaoxing City, CCXAP research

Xinchang County is located in the southern part of Shaoxing City, with geographical area of 1,213 square kilometers and population of about 429 thousand. Xinchang County has a relatively good investment potential, with 17 listed companies as of end-2022. According to the High-quality Development Index of China's Small and Medium-sized Cities in 2022, it ranked 64th by investment potential among top 100 counties/county-level cities in China. Healthcare and high-end manufacturing are the key pillar industries of Xinchang County, such

as Chinese medicine, axle manufacturing, auto parts manufacturing and textile industries. With ongoing development of its pillar industries, Xinchang County has continued to grow and develop in recent years. From 2020 to 2022, the GRP of Xinchang County increased from RMB46.1 billion to RMB56.5 billion. In 2022, affected by the tax refund policy, the general budgetary revenue of Xinchang County decreased to RMB4.2 billion, of which tax revenue accounting for 73.2%, indicating relatively good fiscal stability. However, Xinchang County has a moderate fiscal self-sufficiency, with a fiscal balance ratio of 58.6% in 2022. In 2022, Xinchang County Government recorded an outstanding debt of RMB17.3 billion, accounting for 30.7% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Xinchang County

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 46.1 | 51.7 | 56.4 |
| GRP Growth (%) | 2.7 | 8.2 | 5.0 |
| General Budgetary Revenue (RMB billion) | 4.4 | 4.5 | 4.2 |
| General Budgetary Expenditure (RMB billion) | 6.5 | 7.0 | 7.1 |
| Local Government Debt (RMB billion) | 10.1 | 13.6 | 17.3 |

Source: Statistic Bureau of Xinchang County, CCXAP research

Government's Willingness to Provide Support

Dominant strategic role as the largest state-owned enterprise in Xinchang County

ZXID is the largest LIIFC in terms of total assets in Xinchang County and the primary LIIFC wholly owned and effectively controlled by Xinchang SASAC. The Company has played an essential and active role in implementing the Xinchang County Government's major strategic initiatives for urban planning, municipal construction and utility and facility operation. It is responsible for various public-related activities such as infrastructure construction, land consolidation, water supply and sewage treatment, shantytown renovation, and public transportation, and has completed various significant infrastructure projects in Xinchang County. Given its dominant strategic role, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

High sustainability for the public policy projects

Entrusted by the local government, ZXID has undertaken a large amount of infrastructure construction projects, such as roads, schools, resettlement housings, and pipe networks, in Old Town District, Xinchang Hi-Tech Industrial Park, and Xinchang Industrial Park of Xinchang County. It mainly conducts infrastructure projects by signing agency construction agreements with the entrusting parties, which would repurchase the constructions upon project completion. As of 31 December 2022, the Company had 25 major infrastructure construction projects under construction, with a total estimated investment of RMB14.2 billion and an uninvested amount of RMB4.7 billion. The Company has a large amount of infrastructure construction projects in the pipelines, indicating strong sustainability of the business, but exerting great capital expenditures pressure.

ZXID is an important primary land developer in Xinchang County and engages in land development projects pursuant to government development strategies. The Company will first bear the cost of land development and the developed land will then be sold via the public market. At the end of each year, the Company will sign an agreement with the local government, which will return the land development costs and a certain percentage of markup to the Company as land development income. As of 31 December 2022, the Company had saleable land of 15.7 million square meters, with total book value of RMB20.3 billion, which in turn promises the sustainability of the business. However, the business is susceptible to the fluctuation of local land and property

markets, causing a degree of uncertainty to its land transfer income.

ZXID is the sole water supplier and sewage treatment provider in Xinchang County, indicating strong regional position. As of 31 December 2022, the Company had 3 water supply plants with a daily water supply capacity of 140,000 tons and 1 sewage treatment plant with a daily sewage treatment capacity of 144,000 tons. In addition, the Company is sole operator of the public transport bus services in Xinchang County, involving long distance bus services, fleet leasing services, village bus services, and travel card operations. Given the increase in operational costs and the public nature of public utility services, the Company continues to suffer losses from the utilities and transportation businesses, and highly relies on government subsidies to cover the losses.

Medium exposure to commercial activities

In addition to public activities, ZXID is also involved in various commercial activities such as engineering construction, material trading, self-operating projects, and property leasing. We consider ZXID's commercial business exposure to be medium, as its market-driven businesses account for around 25% to 30% of its total assets.

ZXID's material trading business mainly involves sales of steel, asphalt, and electrolytic copper to construction companies. The geographic coverage of its material trading has expanded to cover Jiangsu Province, Shanghai, and Zhejiang Province. However, the material trading business is subject to certain concentration risks. As of 31 December 2022, the top 5 suppliers accounted for 71.2% of the procurement. In addition, the profit of the business is low, with gross profit margin of around 1.2% in 2022.

In addition, the Company are constructing a large amount self-operating projects with self-raised fund, mainly including factories and office buildings. After these projects are completed, the Company will receive income through self-operating, property leasing or sales. However, the investment in the self-operating projects is large, exerting high capital expenditure to the Company. As of 31 December 2022, the Company had 12 major self-operating projects under construction, with invested amount of about RMB4.0 billion.

The Company undertakes engineering construction projects in Xinchang County through the public bidding with self-raised fund. The construction projects will be transferred to the entrusting parties upon completion, and the revenue will be recognized based on the agreement. The engineering construction business has brought supplemental income to the Company. The revenue from engineering construction increased from RMB114.7 million in 2020 to RMB164.5 million in 2022.

In addition, ZXID owns three commercial properties, mainly including shopping malls and trading markets, with total leasable area of approximately 54,300 square meters at end-2022. These properties are usually leased to tenants in the retail and food and beverages industries, with leases ranging from one to three years. The Company also manages the tourism ticketing of two national 4A scenic spots, Dafo Temple and Chuanyan Nineteen Peaks.

Good track record of receiving government payments

ZXID has a solid track record of receiving payments from the Xinchang County Government. These payments take various forms, such as government subsidies, capital injections, and asset transfers. From 2020 to 2022, the local government injected capital of about RMB31 billion to the Company, including cash, investment properties, parking lot franchise, sandstone mining rights and equity interests of other state-owned enterprises in Xinchang County, significantly enhancing its capital strength and broadening its business mix. The Company regularly receives a large amount of operational and interest subsidies from the local government to support its

business operation. From 2020 to 2022, the local government has provided total subsidies of RMB5.4 billion into the Company. Overall, given the Company's important position and its contribution to regional economic development, we believe that it will receive strong government support in times of need.

Exhibit 4. Government Support from 2020 to 2022

| (RMB million) | 2020FY | 2021FY | 2022FY |
|-----------------------|---------------|---------------|---------------|
| Operational Subsidies | 861 | 1,048 | 1,527 |
| Interest Subsidies | 335 | 696 | 940 |
| Government Repayments | 316 | 438 | 240 |
| Capital Injections | 5,350 | 9,838 | 11,735 |
| Equity Transfers | 3,942 | 23 | 97 |
| Total | 10,804 | 12,043 | 14,539 |

Source: CCXAP research

High debt leverage and moderate asset quality

With ongoing financing for its construction projects in recent years, ZXID has a large debt burden and a high debt leverage. The Company's total debt increased from RMB49.1 billion at end-2020 to RMB87.7 billion as of 31 December 2022, with total capitalization of 63.1%. In addition, its short-term debt also shows an increasing trend over the past years, exerting certain debt servicing pressure to the Company. As of 31 December 2022, the short-term debt reached RMB17.6 billion, which will be serviced by operating income, government subsidies, and external financing. Nevertheless, the Company maintains a reasonable debt structure. As of 31 December 2022, the Company's short-term debt accounted for 20.1% of its total debt. We expect that, given its large future capital needs, the Company's debt leverage will maintain at a relatively high level in the next 12 to 18 months.

ZXID has moderate asset quality, which may undermine its financial flexibility. As of 31 December 2022, the Company's total asset mainly consists of inventories and non-current assets, which accounted for 82.6% of its total asset. The inventories are mainly investment costs for infrastructure construction and land development projects, while the non-current assets are mainly fixed assets, investment properties, and intangible assets, mainly including reservoir, parking lot franchise, and sandstone mining rights, which are considered low liquidity. Nevertheless, some of the non-current assets, such as reservoir, rental properties, parking lot franchise, and sandstone mining rights, can generate cash flow for the Company.

Good access to funding

ZXID has good access to funding as reflected by its good banking relationships and access to debt capital markets, with bank loans accounting for about 55% and bonds accounting for about 35% of total debt at end-2022. The Company maintains good relationships with large commercial banks and policy banks. As of 31 December 2022, it had total credit facilities of RMB59.3 billion, with unutilized amount of RMB6.7 billion. The Company has also diversified its financing channel to both onshore and offshore debt capital markets, and has issued various types of bond products, including PPNs, private corporate bonds, and USD bonds. The Company have raised about RMB10.0 billion in onshore debt market and USD500 million in offshore debt market since 2020. Additionally, the Company has a relatively low reliance on non-standard financing.

Furthermore, the Company has manageable contingent liability risks as its external guarantee amount only accounted for 7.3% of net asset at end-2022.

ESG Considerations

ZXID bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Xinchang County. Demographic changes, public awareness, and social priorities shape government's target for ZXID, or affect the government's propensity to support the Company.

ZXID's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656