

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## **Tianfeng Securities Co., Ltd (security code: -)**

<Assignment>

Foreign Currency Long-term Issuer Rating: A-  
Outlook: Stable

### *Rationale*

- (1) Tianfeng Securities Co., Ltd (TFS) is a securities company based in Wuhan, Hubei Province, People's Republic of China. In May 2023, the Hubei Department of Finance acquired TFS shares through its wholly owned provincial holding company "Hubei Hongtai Group Co., Ltd. (Hongtai Group)" and "Wuhan Trading Group Co., Ltd (Wuhan Trading)" which is wholly owned by Wuhan State-owned Asset Supervision and Administration Commission (Wuhan SASAC), becoming its "ultimate beneficial owner". TFS plays an important role in promoting capital market development in Hubei Province and financing local companies. Its business base covers the entire China, including Hong Kong, and provides a variety of financial services such as securities brokerage, proprietary trading, investment banking and asset management. JCR assigned "A-" as the issuer rating based upon the creditworthiness of the Hubei Province as base reference. The rating outlook is Stable.
- (2) Sichuan Tianfeng Securities Brokerage Co. Ltd, the predecessor of TFS, was founded in Sichuan Province in March 2003, and then moved its base to Wuhan, Hubei Province, in January 2008 after accepting capital investment from the Wuhan SASAC. It was converted to a joint-stock company and changed its name to the current one in February 2012 and was listed on the Shanghai Stock Exchange in May 2018. Hongtai Group was approved by the China Securities Regulatory Commission (CSRC) in December 2022 to become a controlling shareholder of TFS and acquired a 13.84% stake in February 2023. It concluded a shareholders' agreement with Wuhan Trading, which holds an 8.78% stake. They signed an agreement in 2022 to act in concert over TFS, although Hongtai Group's decisions will take precedence. Hongtai Group announced a subscription of RMB 4 billion shares in a private placement in April 2023. The shares which Hongtai Group subscribes for this time is not transferable within 5 years from the date of the issuance. The deal is currently waiting for regulatory approval. When the placement is completed, the direct stake of Hongtai Group will further increase to 26.54% from 13.84% and the agreement with Wuhan Trading would allow it to have a combined 34.03% stake. Hubei Provincial Government's de facto equity stake in TFS, including those held by Hongtai Group and Wuhan Trading, will be over 35% at end-2023. TFS's articles of incorporation stipulate that only shareholders who hold 3% or more of shares can propose the candidates of outside directors and representative directors at the shareholders general meetings. This means that the right to appoint representative directors is substantially limited to Hongtai Group in accordance with the shareholders' agreement between Hongtai Group and Wuhan Trading. Hongtai Group is 100% owned by the Hubei Proving Department of Finance and the majority of its board members are dispatched by the Hubei Provincial Government.
- (3) Following the acquisition of shares by Hongtai Group, the capital, business and human linkage between TFS and the Hubei Provincial Government have been immensely strengthened. Since May 2023, on behalf of Hubei Department of Finance, Hongtai Group has been dispatching several directors to TFS and the majority of directors of TFS will be the representative of the Provincial Government. Majority members of the Party Committee set up at TFS are composed of Hongtai Group representatives. The Party Committee Chairman is the Chairman of Hongtai Group and its Vice Chairman is the Chairman of TFS. The Committee has the function of examining important matters to be submitted to the Board of Directors, such as resolutions of TFS's annual budgets, significant investment and key management personnel appointment, prior to the Board of Directors meeting. Hongtai Group also assign its personnel to the managerial positions in TFS. Just before the acquisition of TFS shares by Hongtai Group in July 2019, the Wuhan State Asset Management Company (the predecessor of Wuhan Trading) announced a policy in writing to provide TFS with liquidity support and capital increase. While maintaining its commercial operational independence, TFS has established a strong governance system to check whether it carries out appropriate business operations as a securities company owned by the Hubei Provincial Government. The government

has announced its policy to provide capital and liquidity support to ensure that. With such support, TFS will help companies located in Hubei Province raise their necessary funds and play an important role in the cultivation and development of the capital market in the province.

- (4) As a securities company owned by the Hubei Provincial Government, TFS evolves business all over the country through its 100 branches while putting emphasis on support for fund raising by regional enterprises. Its segment-by-segment income in the first half of 2023 consisted of 35% in securities brokerage, 62% in proprietary trading, 21% in investment banking, 16% in asset management and 6% in private funds. Other operations and intersegmental adjustments together reduced the combined total by 40%. The Securities Regulatory Commission provide guidance to TFS regarding its retail fee structure, putting restrictions on excessively competitive fee setting. For this reason, it is important for TFS to be able to provide high-quality research to be chosen by customers for retail transactions. In this regard, the company's research department has 210 analysts and provides investment analysis on 3,000 domestic stocks and 800 overseas stocks, winning high reputation in the country's analyst ranking and contributing to the expansion of customers. In 2022, TFS incurred a net loss in 2022, the loss is one-off nature due to higher asset write-offs and a weak market condition and the first half of 2023 recovered a net profit. JCR expects the company to make reasonable profits in the future.
- (5) In accordance with the laws and regulations such as the "Comprehensive Risk Management Standards for Securities Companies" stipulated by the Securities Regulatory Commission, which is the supervisory authority, TFS carries out an integrated risk management covering market, credit, operation, liquidity, reputation, compliance and all other risks. Its liquidity ratio calculated from liquid assets it holds and the liquidity required in the next 30 days stood way substantially higher than the minimum 100%, indicating that its liquidity is abundant. Regarding its capital, TFS uses the ratio of net assets to the total of various risk reserves as a management index. As of the same date, the index stood reasonably above the minimum threshold of 100%. TFS mainly relies on RMB-denominated bonds for funding. But it also issues US dollar bonds directly by TFS or through its subsidiary TF International Securities Group Limited.

Atsushi Masuda, Shinya Iwasaki

## Rating

Issuer: Tianfeng Securities Co., Ltd

<Assignment>

Foreign Currency Long-term Issuer Rating: A-      Outlook: Stable

Rating Assignment Date: January 19, 2024

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014), "Securities" (May 8, 2014) and "Rating Methodology for Group Companies of Corporate Group" (September 1, 2022) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Tianfeng Securities Co., Ltd
Rating Publication Date:	January 22, 2024

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

#### A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

#### B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

#### C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

### B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

### C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

**D) Related Parties' Status and Stance of Support/ Assistance for the Issuer**

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

**E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract**

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

**F) Rise and Fall in General Economy and Markets**

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

**G) Various Events**

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

**A) Business Bases**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

**B) Financial Grounds and Asset Quality**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but

possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Kiichi Sugiura, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

杉浦 輝一

Kiichi Sugiura  
General Manager of International Rating Department

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