

Lianhe Global publishes ‘BBB+’ global scale Long-term Issuer Credit Rating of Dalian Deta Holding Co., Ltd.; Outlook is Stable

HONG KONG, 21 March 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, publishes ‘BBB+’ global scale Long-term Issuer Credit Rating of Dalian Deta Holding Co., Ltd. (“Dalian Deta”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the de facto local government of Dalian’s Jinpu New Area (“DJNA”), Jinpu New Area Administrative Committee (“DJNA Administrative Committee”), would provide strong support to Dalian Deta if needed. This mainly considers the DJNA Administrative Committee’s full ownership of Dalian Deta, the high importance of Dalian Deta to DJNA in the infrastructure and public utilities development, and the strong linkage between the DJNA Administrative Committee and Dalian Deta, including management supervision, ongoing operational and financial support. In addition, DJNA may face significant negative impact on its reputation and financing activities should Dalian Deta encounter any operational and financial difficulties.

The Stable Outlook reflects our expectation that Dalian Deta’s strategic importance would remain intact while the DJNA Administrative Committee will continue to ensure Dalian Deta’s stable operation.

Key Rating Rationales

Dalian’s Jinpu New Area Administrative Committee’s Full Ownership: The DJNA Administrative Committee holds 100% stake in Dalian Deta, via a newly-created holding company, Dalian Jinpu New Area Industry Holdings. We believe the setup of Dalian Jinpu New Area Industry Holdings would not reduce the policy role of Dalian Deta in the DJNA, Dalian Deta’s operations would still remain independent. At end-2021, the DJNA Administrative Committee was the only shareholder of Dalian Deta. The paid-in capital of Dalian Deta increased to RMB3.7 billion in 2021 after capital injections, which was the same as its registered capital.

Strategic Importance to Dalian and DJNA: We believe that the DJNA Administrative Committee is willing to extend support to Dalian in view of its strategic important role as one of the major state-owned infrastructure entities of DJNA to support the local economic and urban development. Dalian Deta is one of DJNA’s major LGFVs and has undertaken various businesses including utilities (water, gas and heat) infrastructures and services, public bus transportation and industrial parks construction to support the development of DJNA.

Government Supervision and Strategic Alignment: The DJNA Administrative Committee has strong control and supervision over Dalian Deta, including control of the board of directors, senior management appointments, major strategic, investment, and financing

planning. In addition, DJNA Administrative Committee will assess the economic performance of Dalian Deta's business executives. Dalian Deta's business operation and development have been aligned with the DJNA government's economic and social policies.

Ongoing Government Support: Dalian Deta had received assets and capital injections from the DJNA Administrative Committee and related government entities during the past few years. The assets injection included fixed assets, project under development and real estate properties.

Moderate Financials: Dalian Deta's earnings generation capability has been moderate given its focus on providing utilities and infrastructure construction. Dalian Deta's financial leverage (total liabilities to assets) was moderate at 49.4% at end-September 2021. Apart from the financial support from the government, Dalian Deta has access to financing channels such as bank loans, bond issuance and other financing channels to support its debt repayment and business operation.

Dalian Deta had unrestricted cash of c. RMB2.8 billion and available credit line amount of c. RMB19.2 billion at end-2021, compared with its debt to be due within one year of c. RMB3.15 billion.

Economy and Fiscal Strength of DJNA: At end-2021, DJNA's GDP reached RMB252.9 billion, which was approximately 30% of Dalian's GDP. DJNA mainly relies on the high-tech industry to support its industrial development (the secondary sector), and the industry structure was 5% primary, 60% secondary and 35% tertiary at end-2021. DJNA population was 1.54 million based on the 7th Population Census, which was approximately 21% of Dalian's total population.

DJNA's aggregate fiscal revenues were mainly derived from its budgetary revenue with tax revenue accounting for approximately 65%, 84% and 84% in 2019, 2020 and 2021, respectively. The budget deficit of DJNA was relatively low and it continues to receive subsidies from higher government authorities.

Rating Sensitivities

We would consider downgrading Dalian Deta's rating if (1) there is perceived weakening in support from the local governments, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of DJNA Administrative Committee's ownership of Dalian Deta, or (3) there is a downgrade in our internal credit assessment on DJNA.

We would consider upgrading Dalian Deta's rating if (1) there is strengthened support from the DJNA Administrative Committee, or (2) there is an upgrade in our internal credit assessment on DJNA.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, 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 Dalian Deta's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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