

Lianhe Ratings Global Limited has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Dongyang State-owned Assets Investment Co., Ltd.

HONG KONG, 31 January 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Dongyang State-owned Assets Investment Co., Ltd. (“DSAI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dongyang City (“Dongyang government”) would provide strong support to DSAI if needed, in light of its indirect full ownership of DSAI, DSAI’s strategic importance as the important state-owned entity for infrastructure construction and land development, state-owned capital investment, as well as settlement house construction in Dongyang City (“Dongyang”), and the linkage between the Dongyang government and DSAI, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Dongyang government may face significant negative impacts on its reputation, business and financing activities if DSAI encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that DSAI’s strategic importance would remain intact while the Dongyang government will continue to ensure DSAI’s stable operation.

Key Rating Rationales

Dongyang Government’s Ownership and Supervision: The Dongyang government indirectly holds full ownership of DSAI through the State-owned Assets Supervision and Administration Office of People’s Government of Dongyang City (“Dongyang SASAO”) and Zhejiang Financial Development Co., Ltd. Dongyang SASAO is the ultimate controller of the company. The Dongyang government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dongyang government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Dongyang and Strategic Alignment: DSAI, as the most important LIDC in Dongyang, is mainly responsible for municipal infrastructure construction, land development, investment and development of urban public resource projects, investment and management of state-owned assets, real estate development, etc. with franchise advantages. In addition, DSAI is also responsible for the water related business, mainly including water supply and sewage treatments in the region. DSAI is the core entity for the operation of state-owned assets in a monopoly position in Dongyang. It plays an important role in promoting the

economic and social development of Dongyang. DSAI's business operation and development have been aligned with the government's development plans.

Ongoing Government Support: DSAI received operational and financial support from the Dongyang government. DSAI had received a total subsidy amount of c. RMB1,005 million from 2019 to the first six months of 2022. The Dongyang government will repurchase some infrastructure projects upon completion and provide policy supports to DSAI to ensure its business operation. Given the franchise advantage in infrastructure projects construction and land development in Dongyang, DSAI has advantages to obtain land resources and main projects. We believe DSAI is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

DSAI's Financial Matrix and Liquidity Position: DSAI's total assets showed a continuous growth trend in the past years and reached RMB60 billion at end-June 2022, mainly due to the increase of fixed asset and inventories. DSAI's financial leverage (total liabilities to assets) was 60.5% and its adjusted debt increased to c. RMB27.9 billion at end-June 2022. The liquidity of DSAI was moderate. DSAI had a cash balance and unused credit facilities of c. RMB6.4 billion and RMB16.8 billion at end-June 2022, compared with its debt due within one year of c. RMB7.5 billion. Besides, DSAI has access to various financing channels, including bank loans, bond issuance and non-traditional financing (e.g. trust loans), to support its debt repayment and business operations.

Economy and Fiscal Strength of Dongyang: Dongyang, as one of the county-level cities under the jurisdiction of Jinhua, is located in the middle of Zhejiang Province, adjacent to Yiwu City in the west. Dongyang's economy maintained steady growth, with GDP reaching RMB73.1 billion and high year-on-year growth of 10.5% in 2021. The GDP was mainly fueled by the secondary and tertiary industries, which accounted for 45.0% and 52.5% of aggregate GDP in 2021.

The aggregate fiscal revenue of the Dongyang government was mainly derived from the budgetary revenue and government fund income. The Dongyang government's budgetary revenue grew moderately and increased to RMB8.3 billion in 2021, where its tax revenue accounted for more than 89% of its budgetary revenue in the past three years. Besides, Dongyang's government fund income grew significantly due to the increase in revenue from industrial land transfer and comprehensive land transfer and recognized RMB10.6 billion in 2021. The fiscal self-sufficiency rate of the Dongyang government was manageable. Its budget deficit was improving in the past three years, which was -41.6%, -37.2% and -32.8% in 2019, 2020 and 2021, respectively, due to the relatively strong growth of budgetary revenue. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Dongyang government was c. 80.1% at end-2021, down from c. 81.2% at end-2019.

Rating Sensitivities

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

We would consider upgrading DSAI's rating if (1) there is strengthened support from the Dongyang government, or (2) there is an upgrade in our internal credit assessment on the Dongyang government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 DSAI's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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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