

Credit Opinion

25 July 2025

Ratings

Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Shandong Zhengfang Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Shandong Zhengfang Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Shandong Zhengfang Holding Group Co., Ltd. (“SDZF” or the “Company”) reflects Zoucheng City Government’s strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of the Zoucheng City Government’s capacity to support reflects Zoucheng City’s relatively good economic strength and fiscal metrics, as one of the Top 100 counties in China and the top counties by gross regional production (“GRP”) in Jining City.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in the infrastructure construction of Zoucheng City, especially the Zoucheng Economic Development Zone (“Zoucheng EDZ”); (2) importance in the provision of local public utility services; and (3) solid track record of government support.

However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) relatively high short-term debt burden; and (3) medium contingent liabilities risk.

The stable outlook on SDZF rating reflects our expectation that the Zoucheng City Government’s capacity to provide support will be stable, and the Company’s characteristics such as its important role in the industrial development of Zoucheng City will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Important role in the infrastructure construction of Zoucheng City
- Importance in the provision of local public utility services
- Solid track record of government support
- Medium exposure to commercial activities
- Increasing debt amount with relatively high short-term debt burden
- Access to multiple funding sources along with moderate asset liquidity
- Medium contingent liabilities risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Zoucheng City Government's capacity to provide support strengthens; and (2) Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as significantly improved refinancing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the Zoucheng City Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance or deteriorated debt management.

Key Indicators

	2022FY	2023FY	2024FY
Total Asset (RMB billion)	16.2	18.1	20.0
Total Equity (RMB billion)	6.8	7.5	7.8
Total Revenue (RMB billion)	2.1	2.3	2.4
Total Debt/Total Capital (%)	50.8	46.6	49.3

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2010, SDZF is one of the key local infrastructure investment and financing companies ("LIIFCs") in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng EDZ. The Company engages in diversified businesses, including infrastructure construction, bus operation, gas filling, industrial park operation, trading, and electricity and heat sales. SDZF was ultimately controlled by the Finance Bureau of Zoucheng City. As of 31 December 2024, the Finance Bureau of Zoucheng City held 76.51% of the Company's shares, and Agricultural Development Infrastructure Fund Co., Ltd. held the remaining 23.49% of the shares.

Exhibit 1. Shareholding chart as of 31 December 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

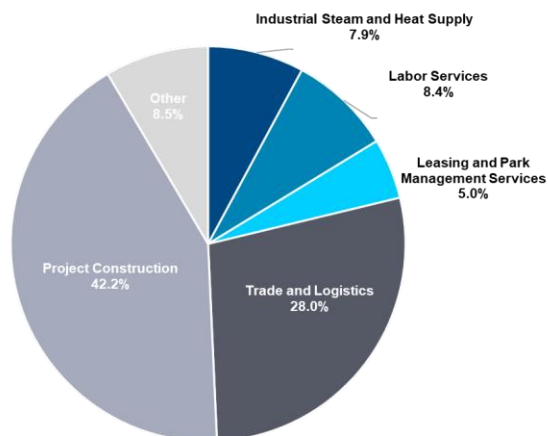
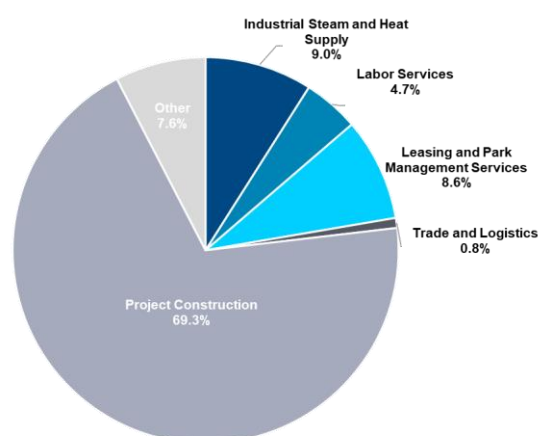


Exhibit 3. Gross profit structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Zoucheng City Government has a strong capacity to provide support given its relatively good economic strength and fiscal metrics, as one of the Top 100 Counties in China in 2024.

Shandong Province is the third largest province in China by gross regional products ("GRP"), with solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Located in the southern part of Shandong Province, Jining City is one of the central cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Thanks to its diversified industrial structure such as coal mining, machinery and equipment manufacturing, paper and paper products, chemical industry goods, and textiles, Jining City's economic strength and fiscal strength had been steadily improved over the past three years. In 2024, Jining City reported a GRP of RMB586.7 billion, representing 5.8% year-over-year ("YoY") growth and ranking 6th among 16 prefecture-level cities in Shandong Province. However, Jining City has moderate fiscal metrics and a moderate debt profile. The Jining Municipal Government's general budgetary revenue was RMB49.6 billion in 2024, and its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 60% over the past three years. Tax incomes slightly decreased to RMB31.1 billion in 2024 from RMB32.4 billion in 2023, accounting for 62.7% of its general budgetary revenue. As of 31 December 2024, its government debt to GRP ratio was 34.4%.

Exhibit 4. Key economic and fiscal indicators of Jining City

	2022FY	2023FY	2024FY
GRP (RMB billion)	531.7	551.6	586.7
GRP Growth (%)	4.4	6.5	5.8
General Budgetary Revenue (RMB billion)	44.8	47.5	49.6
General Budgetary Expenditure (RMB billion)	74.7	78.3	80.0
Local Government Debt (RMB billion)	151.4	171.4	201.6

Source: Jining Municipal Government, CCXAP research

Located in the southwest of Shandong Province, Zoucheng City is a county-level city under the management of Jining City. Zoucheng City ranked 46th among CCID's Top 100 Counties in China in 2024, with good traffic advantages and rich coal resources. It has developed "1+5" pillar industries including digital economy, intelligent equipment manufacturing, high-end green chemical, new energy and new material, health medicine, and industrial robot, simulating Zoucheng City's economic growth in recent years. Supported by abundant resources, several large energy enterprises have settled in Zoucheng City including Yankuang Energy Group Company Limited and Huadian Power International Zouxian Power Plant. Zoucheng City is the largest county/district in Jining City by GRP. It had a GRP of RMB110.4 billion in 2024, accounting for 18.8% of Jining City's GRP. Zoucheng City Government's general budgetary revenue has also grown for consecutive years. In 2024, its general budgetary revenue increased by 5.5% YoY to RMB9.6 billion, of which tax revenue accounted for 56.0% of its general budgetary revenue, indicating relatively good fiscal quality. Meanwhile, Zoucheng City Government has good financial self-sufficiency with average fiscal balance ratios above 100% over the past three years. As of 31 December 2024, the outstanding government debt of Zoucheng City Government was RMB15.3 billion, accounting for 13.9% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Zoucheng City

	2022FY	2023FY	2024FY
GRP (RMB billion)	100.9	104.1	110.4
GRP Growth (%)	5.0	7.0	6.2
General Budgetary Revenue (RMB billion)	8.6	9.1	9.6
General Budgetary Expenditure (RMB billion)	8.5	9.1	9.1
Local Government Debt (RMB billion)	10.3	11.6	15.3

Source: Zoucheng City Government, CCXAP research

Zoucheng EDZ is a provincial-level development zone approved by the Shandong Provincial Government in 1992, with a planned land area of 95.4 square kilometers. Zoucheng EDZ develops five leading industries including high-end green chemical industry, new energy and new materials, high-end equipment manufacturing, biomedicine and robotics. There formed three feature industrial parks in Zoucheng EDZ, namely Zoucheng Chemical Industry Park, High-end Equipment Manufacturing Industry Park, and New Energy and New Materials Industry Park. Over years of development, Zoucheng EDZ plays an important role in the economic growth and improvement of the financial income of Zoucheng City.

Government's Willingness to Provide Support**Important role in the infrastructure construction in Zoucheng City**

There are five major LIIFCs in Zoucheng City under the control of Zoucheng City Government. Each of them has a clear position under the government's planning. Among them, SDZF is a key entity in infrastructure

construction in Zoucheng City, mainly for projects in the Zoucheng EDZ such as industrial park construction, road construction and improvement, and river course improvement.

SDZF engages in infrastructure construction mainly under the agency construction model. The Company signs entrusted construction agreements with Zoucheng Urban Construction Industry Development Co., Ltd., which is wholly owned by Zoucheng State-owned Assets Supervision and Administration Bureau (“Zoucheng SASAB”) and mainly responsible for project construction, fundraising and management, investment control, and acceptance. The Company receives the actual construction cost plus a certain markup, generally 20%, as project construction revenue according to the construction progress of the project. As of 31 December 2024, the Company has completed key projects of RMB3.9 billion in total investment, including the water diversion project, Zoucheng Lingang Logistics Park construction project, and public utilities. The Company had received RMB3.2 billion of government paybacks as of the same date. At the same time, the Company had 1 project under construction with total investment of RMB1.2 billion and an uninvested amount of RMB350.0 million. In addition, the Company had 2 infrastructure projects under planning, with total estimate investment of RMB1.3 billion. However, these projects have not yet signed the entrusted construction agreements.

Importance in the provision of public utility services

SDZF provides public utility services including bus operation, heat and gas supply in Zoucheng City, with certain franchising advantages. In August 2024, the Company transferred out the subsidiaries that involved in bus operation business because of the state-owned assets operation plan, and the Company will no longer be involved in bus operations since then. In the first half of 2024, the Company realized RMB17.4 million of revenue from bus operation.

With some small-scale power plants being required to shut down in Zoucheng EDZ, SDZF enters into the heat supply business in 2021 to fulfill the local needs which is essential to the livelihood of local residents and secure industrial activities. The Company provides heat for residents in Dongtan, Baodian and Nantun mining areas, and Yanzhou District. It also provides steam for companies located in the Zoucheng EDZ. As of end-2024, the Company had an annual supply capacity of 3.0 million tons in steaming. The heat and steam supply businesses have recorded a revenue of RMB186.4 million in 2024. The Company has not fully utilized the production capacity. As more outdated capacities are eliminated in the Zoucheng EDZ, the Company’s revenue from the heat and steam supply is expected to increase in the near term. Meanwhile, the Company had 1 steam supply project under construction, with total investment of RMB3.4 million, and outstanding amount of RMB1.2 million. Besides, SDZF had 1 key heat supply project under planning, with total investment of RMB830.0 million. Considering the relatively large scale of ongoing investment, the Company may face greater capital expenditure pressure in the near term.

Solid track record of government support

SDZF has a solid track record of government support in terms of obtaining franchised business, special fund allocations for project construction, financial subsidies, asset transfer, and equity shares transfer. From 2023 to 2024, the Company had received RMB391.0 million of financial subsidies from the Zoucheng City Government. In 2023, the government transferred 1 water supply and 1 heat supply project to the Company without compensation, which increased the Company’s net asset by RMB612.0 million. Moreover, the local government further transferred several operating rights and sewerage pipelines to the Company in 2024, with total book value of RMB1.8 billion and RMB2.0 billion, respectively, but these assets have not yet generated revenue for the Company. These asset transfers enhanced the capital strength of the Company. In addition, the local government provides some preferential policies such as refunds for land consolidation, financial incentives for

investment promotion, and asset transfer for revitalizing land or building resources. Given the important role in infrastructure construction and public services provision in Zoucheng City, we expect the Company will continue to receive support from the local government.

Medium exposure to commercial activities

SDZF engages in various commercial activities including trading, cemetery services, leasing, labor services, industrial park development, and equity investments. The Company's commercial activities accounted for more than 30.0% of its total assets, while such business risks are considered to be moderate as most of these businesses have certain regional franchises.

SDZF leased its purchased property and assets allocated by the local government to supplement its income, which mainly includes office buildings, factories, industrial parks, shops, low-rent housing, water plants. As of end-2024, most of the leasable property was leased to the local government and other state-owned enterprises ("SOEs"). In addition, the Company also has a large investment in industrial park construction and supporting infrastructure, and plans to balance the initial investment primarily through sales and leasing. As of 31 December 2024, the Company had completed 4 self-operated projects, with a total investment of RMB1.2 billion, and the occupancy rate was around 75.0%. Meanwhile, the Company had 7 key projects under construction with a total investment of RMB3.9 billion and an uninvested amount of RMB3.0 billion. In 2024, the revenue from property leasing and industrial park management service business increased from RMB91.2 million in 2023 to RMB116.8 million due to more properties being rented out. However, the Company may face some business operation risks as this business is highly subject to the economic condition in Zoucheng City and the progress of investment promotion.

Apart from self-operated projects, the Company also engages in trading business mainly under the back-to-back mode. Major products include coal, petroleum coke, ferronickel and nickel ore. The Company will enter into purchase orders according to sale contracts with its downstream customers, with a decent margin. Trading revenue has remained steady at around RMB660.0 million in both 2023 and 2024. Sales from the commodity trading segment account for a relatively large portion of the Company's operating income but generated small profit. At the same time, the concentration risk was high for this business as the Company's trading volume with its top 5 suppliers and customers had accounted for over 65.0% of its procurement and sales in 2024, respectively. Moreover, given that some downstream customers are private enterprises with a history of payment delays, this segment may face higher risk.

Increasing debt amount with relatively high short-term debt burden

With the fast growth in the Zoucheng EDZ, SDZF has undertaken many major projects, leading the high level of debt burden over the past years. SDZF's total debt increased from RMB6.5 billion as of end-2023 to RMB7.6 billion as of end-2024. The total capitalization ratio (total debt/total capital) of SDZF maintained at 49.3% in 2024, indicating a moderate level of debt leverage. However, the Company has a relatively high short-term debt burden, with short-term debt accounting for 41.3% of total debt by the end of 2024. Considering the ongoing investment of the Company, it still needs to rely more on external financings such as government special funds, debt capital market and project loans to meet its capital needs.

Access to multiple funding sources along with moderate asset liquidity

SDZF has different financing channels such as banks, onshore and offshore debt capital market, government special bond funds, and financial companies. However, it showed a reliance on non-standard financing and

other payables. Although a portion of them has been repaid in 2023, the non-standard financing still accounted for 11.8% of the Company's total debt as of the end of 2024, which mainly included financing leases and trusts. Such fundings generally have higher costs, heightening the refinancing needs for the Company.

SDZF's financing ability is supported by its good relationships with banks. As of 31 December 2024, the Company had bank credit facilities of approximately RMB4.4 billion, of which available portion was approximately RMB1.0 billion. SDZF also actively expands its financing channel, for example, in March 2023, the Company issued a 7-year green corporate bond to raise RMB700.0 million. From May 2024 to June 2025, the Company's subsidiary Shandong Zhengfang High-Tech Industrial Holding Group Co., Ltd. ("ZFIH") issued 1 tranche of onshore private placement note and 2 tranches of offshore bonds, raising RMB500.0 million and RMB160.0 million, respectively.

The Company's asset liquidity is moderate, with inventories, investment properties, fixed assets, intangible assets and receivables accounted for 83.6% of its total asset as of end-2024. These assets mainly consist of farmland, collapsed land management operating rights and sewerage pipelines network, which are considered to have low liquidity, and can only generate limited revenue for the Company. Moreover, SDZF has pledged some of its assets for loan, with a total amount of RMB4.0 billion, accounting for 20.2% of its total asset. This may undermine the Company's financial flexibility.

SDZF's refinancing ability has a significant impact on its financing stability, which may be easily influenced by the change in the financing market. The refinancing environment in Zoucheng City is moderate and the local LIIFCs bear a relatively higher funding cost. Furthermore, there is a phenomenon of intercompany lendings and mutual guarantees among local SOEs in Zoucheng City, which exposes local SOEs to cross-default risks in case a credit event exists.

Medium level of contingent risk

SDZF faces medium level of contingent liability risk. As of 31 December 2024, the Company had external guarantees amounted to RMB2.0 billion, accounting for 26.0% of its net asset. Most of the guarantees were provided to local stated-owned enterprises ("SOEs") such as Shandong Honghe Holding Group Co., Ltd. and Limin Construction Development Group Limited, while RMB20.0 million of the guarantees were provided to an enterprise in which the Company has equity participation. Moreover, there is one guaranteed party was involved into a litigation case, which may lead to RMB50.0 million of potential repayment obligation for the Company. Mutual guarantees between local SOEs are common in Zoucheng City which is mainly due to the increasing financing needs of local SOEs. However, in case a credit event occurs, the Company may face significant contingent liability risks and cross-default risks.

ESG Considerations

SDZF faces environmental risks because it has undertaken infrastructure construction in Zoucheng City. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

SDZF bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects and providing public services in Zoucheng City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the company.

SDZF's governance considerations are also material as the Company is subject to oversight by the Zoucheng

City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

SDZF's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in the industrial development of Zoucheng City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

Appendix

Exhibit 5. Peer Comparison

	Zoucheng Urban Assets Holding Group Co., Ltd.	Shandong Zhengfang Holding Group Co., Ltd.	Zoucheng Limin Construction Development Group Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g	BBB _g -
Shareholder	Finance Bureau of Zoucheng City (100%)	Finance Bureau of Zoucheng City (76.51%) and Agricultural Development Infrastructure Fund Co., Ltd. (23.49%)	Zoucheng Limin Holding Group Co., Ltd. (90%) and Shandong Caixin Asset Operation Co., Ltd. (10%)
Positioning	Key entity in urban infrastructure and state-owned assets operation in Zoucheng City	Key entity in infrastructure construction in Zoucheng City, especially the Zoucheng Economic Development Zone	Key entity in infrastructure construction in Zoucheng City, especially the Mencius Lake New District
Total Asset (RMB billion)	59.5	20.0	25.1
Total Equity (RMB billion)	21.0	7.8	8.7
Total Revenue (RMB billion)	8.9	2.4	1.4
Total Debt/Total Capital (%)	57.6	49.3	-

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2024.

Source: Company data, CCXAP research

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