

Credit Opinion

3 June 2026

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

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Guangdong Gaohua Industrial Investment Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Guangdong Gaohua Industrial Investment Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Guangdong Gaohua Industrial Investment Development Group Co., Ltd. (“GGII”) is underpinned by the Company’s (1) status as the most important industrial investment platform in Gaoyao District; (2) good market position and competitiveness in engineering construction and product sales in Gaoyao District; and (3) rapid growth of lithium battery recycling business.

However, the rating is constrained by the Company’s (1) relatively weak profitability; (2) rapid debt growth and high short-term debt repayment pressure; and (3) modest debt servicing capability with moderate access to funding.

The rating also reflects a high likelihood of government support from the Gaoyao District Government when needed, which is based on the Company’s (1) direct ownership and ultimate control by the Gaoyao District Government; (2) significance in promoting the industrial development and integration of state-owned assets in Gaoyao District; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

The stable outlook on GGII’s rating reflects our expectation that the Company will continue to receive solid support from the Gaoyao District Government. We also expect the Company to maintain its strategic role as the important industrial development platform in Gaoyao District over the next 12 to 18 months.

Rating Drivers

- Most important industrial investment platform in Gaoyao District, but with relatively high capital pressure
- Good market position in engineering construction and product sales in Gaoyao District
- Rapid growth of lithium battery recycling business
- Relatively weak profitability
- Rapid debt growth and high short-term debt repayment pressure
- Modest debt servicing capability with moderate access to funding
- High likelihood of support from the Gaoyao District Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Gaoyao District Government increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's stand-alone credit profile improves significantly, such as stronger market position and improvement in profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Gaoyao District Government decreases; (2) the performance of the Company's investment portfolio deteriorates; or (3) the Company shows weakened access to funding and eroded liquidity profile.

Key Indicators

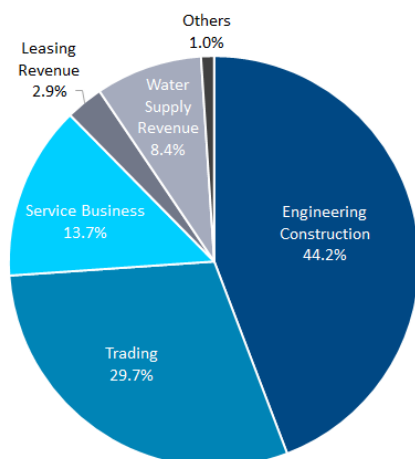
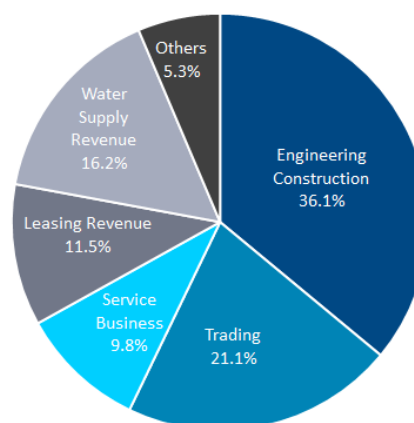
	2023FY	2024FY	2025FY
Total Assets (RMB billion)	19.5	27.5	31.3
Total Equity (RMB billion)	16.4	21.7	20.3
Total Revenue (RMB billion)	0.8	1.0	1.5
Net Profits (RMB billion)	0.1	0.1	0.1
EBIT Margin (%)	12.9	16.3	19.9
Return on Assets (%)	0.6	0.7	1.0
Total Debt/Total Capital (%)	13.0	18.3	32.4
Total Debt/EBITDA (x)	18.5	23.0	21.8
EBITDA/Interest (x)	3.7	3.0	2.4
FFO/Total debt (%)	0.1	0.2	1.4

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2021, formerly known as Zhaoqing Gaoyao District Huochuang Investment Development Co., Ltd., GGII is positioned as an important industrial investment and state-owned assets operation platform in Gaoyao District and mainly engages in industrial investment, engineering construction, product sales and services businesses. As of 31 December 2025, GGII was wholly owned by the Zhaoqing Gaoyao District State-owned Assets Supervision and Administration Bureau ("Gaoyao SASAB").

Exhibit 1. Revenue structure in 2025**Exhibit 2. Gross profit structure in 2025**

Source: Company information, CCXAP research

Rating Considerations

Business Profile

Most important industrial investment platform in Gaoyao District, but with relatively high capital pressure

As the most important industrial investment platform in Gaoyao District, GGII is of great significance in promoting the development of strategic emerging industries in Gaoyao District. Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co. Ltd. (“GIID”) is the most important subsidiary of GGII, responsible for the industrial investment business in Gaoyao District. Besides of the business of GIID, the Company also conduct promoting the development of strategic emerging industries, such as science and technology innovation, low-altitude economy, big data, and smart cities.

The Company engages in industrial investment business by ways of equity investment and project investment and its investment portfolio is aligned with the government policies and economic development, focusing on local advantageous industries such as new materials and metal processing and cultivating emerging industries including advanced equipment manufacturing, modern agriculture and electronic information, thereby improving regional industrial upgrading. The Company also revitalizes local high-quality resources such as mines. However, the large scale of project investment exerts relatively high capital pressure and puts certain pressure on the financing activities of the Company.

Positioned as an important industrial investment entity to promote the development of pillar industries in Gaoyao District, the Company engages in industrial investment business by ways of equity investment and projects construction. At end-2025, the Company had a diversified industrial investment portfolio as it had invested in the equity shares in multiple enterprises, with a total equity book value of RMB2.1 billion, focusing on auto parts production, engineering construction, new energy, civil explosives product sales, tobacco production and sales, gold mining and production and agricultural products industries. Benefiting from the diversification of investment targets, the Company achieved stable investment return in recent years, which ranging from RMB62.0 million to RMB73.0 million from 2023 to 2025.

In accordance with the development plans of the local government in attracting enterprises and investments

settling in Gaoyao District, the Company also participates in the industrial project development in Gaoyao District under the self-operated model with its own funds and self-raised funds. As of 31 December 2025, the Company had 3 industrial development projects under construction, which are mainly industrial park projects and Gaogui duck industry chain projects, with total planned investment of RMB2.4 billion and an outstanding amount of RMB1.9 billion. Moreover, the Company establishes joint venture companies with industry-leading companies to operate these projects. The income of the Company's industrial development business mainly comes from leasing of factories and photovoltaic equipment, and investment dividends. However, the large amount of future investment of industrial development projects would bring large capital expenditure pressure to the Company.

Good market position in engineering construction in Gaoyao District

GGII is a leading local E&C company in Gaoyao District, mainly in the area of water conservancy and municipal construction. The Company maintains high market recognition as it participates in most infrastructure construction projects in Gaoyao District.

GGII possesses good technical advantages in local engineering construction, and is equipped with sufficient industry qualifications, which enable it to be more competitive in the tendering market and access to quality projects. GGII demonstrates good project reserves that help support its future business growth. In 2025, the Company's newly signed contracts amount to RMB3.2 billion. As of 31 December 2025, the Company's unfinished contract value amounted to RMB2.4 billion, providing a certain support for future income. The total contract value of key projects under construction amounted to RMB2.1 billion with a recognized revenue of RMB625.3 million. In addition, GGII's project quality is considered high given most of the Company's clients are the local government, SOEs and local large-sized enterprises that have lesser payment risk. However, the development of engineering construction business is constrained by its geographically concentrated operation in Gaoyao District as its growth is highly associated with the local construction needs in the district and its investment planning.

Strong regional competitiveness in product sales business

GGII also has strong regional competitiveness in the sales business sector in Gaoyao District, supported by its regional advantages. GGII carries out sales businesses with a multiple product portfolio including gas cylinders, civil explosives, grain and chemical reagents. We believe that the Company has good market position in the region underpinned by its franchise rights from the local government. The Company's sales revenue amounted to RMB437.0 million in 2025, with gross profit margin of 10.7%.

The Company undertakes the function of guiding foreign trade exports under the planning of local government. It conducts foreign trade sales and generates profits by purchasing products from small hardware manufacturers in Jinli Town and applying for tax refunds. The Company also engages in sales of civil explosives, including explosives, detonators, and fuses, to specific groups at prices under government guidance.

As the sole grain and oil reserve operator in Gaoyao District, the Company is responsible for the purchase, storage, custody, rotation sales of grain in Gaoyao District. The grain is purchased by funds provided by policy loans from the Agricultural Development Bank of China, and the loan interest is subsidized by the Gaoyao District Government. Given the business's strategic functions of stabilizing grain prices by balancing the supply and demand, and responding to major natural disasters or emergencies, the Gaoyao District Government provides continuous subsidies and loan interests to the Company. However, the profitability of the business is susceptible to the fluctuating grain prices.

The Company also supplies gas and cylinders to residents, shops and enterprises within Gaoyao District. Moreover, the Company's meat & vegetable food sales focusing on fresh meat, aquatic products, vegetables and fruits. Its core customers are canteens of enterprises and public institutions.

Rapid growth of lithium battery recycling business

In addition to engineering construction and product sales businesses, the Company has diversified its business segments into leasing, services, lithium battery recycling, and water supply, which is believed to mitigate revenue volatility through the synergistic operation of its multiple business segments, and is credit-positive.

In 2024, the Company obtained control of Guangdong Zhuoyan New Energy Technology Co., Ltd. ("Zhuoyan New Energy") through equity acquisition, and put its own patents related to the recycling and dismantling of waste lithium batteries into production lines. In terms of production capacity, Zhuoyan New Energy currently has 2 production lines, with an annual output of 6,000 tons of battery black powder, 1,000 tons of copper powder and 600 tons of aluminum powder. It plans to add 4 new production lines, with a designed annual processing capacity of 10,000 tons of waste lithium batteries. Driven by the development of the new energy vehicle industry, the lithium battery recycling business has grown significantly. Zhuoyan New Energy achieved sales revenue of RMB14.1 million and RMB24.5 million in 2024 and the first six months of 2025, respectively.

The Company conducts service business through its subsidiaries, providing security, human resources, cleaning, garbage removal, motor vehicle training, sightseeing car services, freight services, which accounted for 13.5% of the total revenue in 2025. The Company is also responsible for operating other businesses such as water supply and leasing services, each accounting for less than 10% of the Company's total revenue in 2025. The Company is the most important water supplier in Gaoyao District, providing water services to 640,000 households with a daily water supply capacity of 212.6 thousand tons. The Company also owns leasable properties, providing supplementary income to the Company. Overall, these businesses have small contribution to the Company's overall revenue but are relatively stable.

Financial Profile

Relatively weak profitability

Benefited from the development of product sales and services businesses, GGII's total revenue increased from RMB842.6 million in 2023 to RMB1.5 billion in 2025. The engineering construction business is the main contributor, accounting for 44.2% of total revenue in 2025, followed by product sales (29.7%), and services (13.7%). However, the Company's period expense ratio (mainly including marketing fee, management fee and finance cost) is relatively high, amounting to 14.8% in 2025.

GGII's profitability is relatively weak as reflected by the weak return on assets and EBIT margin. In 2025, the Company's EBIT margin was 19.9%, while the return on assets was 1.0%. Meanwhile, there is certain uncertainties to stability of the Company's profitability as investment income and gains from fair value change made great contribution to its total profit over the past years, accounting for 65.1% and 40.6% of its total profit in 2025. The investment income came from long-term equity investment in the Company's joint venture company, Guangdong Hongtu Technology Co., Ltd., while gains from fair value change were generated by investment properties and other non-current financial assets.

Rapid debt growth and high short-term debt repayment pressure

Due to relatively large capital expenditure on its construction development projects, GGII's total debt has been growing rapidly over past few years. At end-2025, the Company's adjusted total debt increased to RMB9.7

billion from RMB2.5 billion at end-2023. The total capitalization ratio, as measured by total debt to total capital, had also increased to 32.4% from 13.0% during the same period, maintained at a reasonable level. The Company is exposed to high short-term debt repayment pressure as its short-term debt accounted for 35.2% of its total debt as of 31 December 2025. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.1x, indicating that its cash reserve could not fully cover the short-term debt. We expect the Company's debt burden will continue to increase, given its large capital expenditure needs for its extensive construction projects and further development of its diversified business.

Modest debt servicing capability with moderate access to funding

As the Company's debt burden and financing costs increased, GGII's long-term debt servicing capability is modest. Its EBITDA interest coverage ratio descended from 3.7x in 2023 to 2.4x in 2025 and total debt/EBITDA ratio increased from 18.5% to 21.8% over the same period. In addition, its FFO/total debt ratio remained lower than 1.5% for the past three years, reflecting weak cash flow to debt coverage capability.

Furthermore, as of 31 December 2025, the Company has large amount of non-current assets, accounting for 80.3% of total assets, which are primarily composed of investment properties, long-term equity investments, and intangible assets. The weak asset liquidity may undermine the Company's financing flexibility.

The Company shows diversified access to funding, including bank loans and onshore bond market, accounting for 52.1% and 29.7% of its total debt at end-2025, respectively. Meanwhile, the Company has certain standby liquidity. As of 31 December 2025, the Company had total credit facilities of RMB7.8 billion from diversified domestic policy banks and commercial banks, and an available amount of RMB3.3 billion. Since 2024, the Company's subsidiary Zhaoqing Gaoyao District Gaohong Industrial Investment Development Co. Ltd. has expanded its funding channels to the onshore debt capital market via issuance of three tranches of private corporate bond to raise RMB2.5 billion. However, as of 31 December 2025, the non-standard debts accounted for around 18.1% of the total debt, which would bring higher refinancing pressure to the Company. Given the Company's large outstanding investment amount on its construction projects, we expect the Company will continue to broaden its financing channels, such as offshore bond market.

External Support

High likelihood of support from the Gaoyao District Government

We expect GGII has a high likelihood of receiving support from the Gaoyao District Government in times of need. This expectation incorporates our considerations of the Company's (1) ultimate control by the Gaoyao District Government; (2) significance in promoting the industrial development and integration of state-owned assets in Gaoyao District; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

Gaoyao District boasts industries such as new materials and metal processing, while fostering emerging industries including advanced equipment manufacturing, modern agriculture, and electronic information. These industries are highly aligned with the Company's industrial investment layout, providing a favorable environment for the Company's development. We believe that the Gaoyao District Government has strong capacity to provide support, given its leading economic status in Zhaoqing City with an improving fiscal profile. Gaoyao District ranked 95th by comprehensive strength among Top 100 districts in China according to the research results of High-quality Development Index of China's Small- and Medium-sized Cities in 2025. Affected by reduced industrial output, Gaoyao District's GRP decreased to RMB54.9 billion in 2025, ranking second among all districts in Zhaoqing City. Due to a substantial increase in non-tax revenue generated from sale of mineral

resources, Gaoyao District Government's general budgetary revenue grew rapidly to RMB5.8 billion in 2025. Moreover, its fiscal balance ratio improved to 97.8% in 2025, compared with 70.2% in 2024. Gaoyao District Government has a manageable debt profile as the outstanding debt balance of Gaoyao District Government was RMB15.2 billion at end-2025, accounting for 27.6% of GRP.

Gaoyao SASAB maintains an extremely high degree of control over GGII's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to Gaoyao SASAB. Its strategy and investment align with Gaoyao District Government's policies by investing in industries, such as modern agriculture, renewable power, to promote industrial upgrading in the region.

Given its strategic and economic importance in cultivating local industries in Gaoyao District, GGII receives solid and meaningful supports from the Gaoyao District Government via assets and capital injections, subsidies and granting of franchise rights. From 2024 to 2025, Gaoyao SASAB injected water resource operation rights and sand and gravel operation rights of RMB5.0 billion, capital of RMB50 million subsidies of RMB42.7 million into the Company to support its operations.

We considered the Company's socio-political implications to be high as the Company is commissioned by the local government to play an important role in safeguarding local water and gas supply and strategic investing and operation of many major industrial upgrading projects and public projects, such as the integration of regional market-driven resources, guiding the export of foreign trade, and undertaking grain reserves in Gaoyao District.

Given its strategic position in the development of Gaoyao District, we believe that the local government will continue to provide support to the Company.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. GGII assumes environmental risks for its construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

GGII is also exposed to social risks as an industrial investment entity in Gaoyao District. Demographic changes, public awareness and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company. In recent years, the Company has not experienced any major negative social events or major safety accidents, and it has a relatively sound employee incentive mechanism.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its status as a government-owned entity. We believe that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

The methodology used in this rating is the [Rating Methodology for General Corporate \(May 2026\)](#).

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