Credit Opinion

6 October 2026

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A_g-
Outlook	Stable

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Heze Investment Development Group Co, Ltd.

Surveillance credit rating report

CCXAP affirms Heze Investment Development Group Co., Ltd.'s long-term credit rating at A_g-, with stable outlook.

Summary

The A_g- long-term credit rating of Heze Investment Development Group Co., Ltd. ("HZID" or the "Company") is underpinned by the Company's (1) strong regional competitiveness and importance in engineering construction and public utility service; (2) relatively good business diversity and sustainability; and (3) diversified financing channels.

However, the rating is constrained by the Company's (1) susceptibility to market volatility risks in property development and other service businesses; (2) capital expenditure pressure from agency construction and self-operated businesses; (3) increasing debt burden with relatively weak debt serving capability; and (4) modest liquidity position.

The rating also reflects a high likelihood of support from the Heze Municipal Government when needed, which is based on the Company's (1) status as the largest stated-owned capital operation entity and the key industrial investment platform in Heze City, with strategic importance; (2) direct ownership and ultimate control by the Heze Municipal Government; (3) importance in urban development and social livelihood in Heze City; and (4) good track records of receiving government support.

The stable outlook on HZID's rating reflects our expectation that the Company will maintain its regional competitiveness and strategic importance in Heze City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government.

Rating Drivers

- Most important state-owned capital operation platform in Heze City, with strong regional competitiveness and importance in engineering construction and public utility service
- Relatively large revenue contribution from diversified production and sales businesses along with thin profit margin
- Susceptibility to market volatility risks in property development and other service businesses
- Capital expenditure pressure from agency construction and self-operated businesses
- Relatively good revenue scale but with modest profitability
- Increasing debt burden with relatively weak debt serving capability
- Modest liquidity position mitigated by diversified access to funding
- High likelihood of support from Heze Municipal Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government support for the Company strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as an improvement in profitability and debt structure.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as a deterioration in debt leverage or liquidity.

Key Indicators

	2023FY	2024FY	2025FY	2026Q1
Total Assets (RMB billion)	67.1	70.4	84.2	87.9
Total Equity (RMB billion)	34.0	37.0	37.8	38.3
Total Revenue (RMB billion)	8.4	8.2	8.0	1.6
Net Profits (RMB million)	236.3	165.6	204.2	52.4
EBIT Margin (%)	10.1	10.7	11.0	-
Return on Assets (%)	1.2	1.3	1.2	-
Total Debt/Total Capital (%)	35.2	35.2	46.6	49.3
Total Debt/EBITDA (x)	12.7	15.4	23.9	-
EBITDA/Interest (x)	1.8	1.5	2.0	-
FFO/Total debt (%)	2.5	0.9	1.7	-

All ratios and figures are calculated using CCXAP's adjustments. Some figures and ratios in 2023 and 2024 have been restated.

Source: Company data, CCXAP research

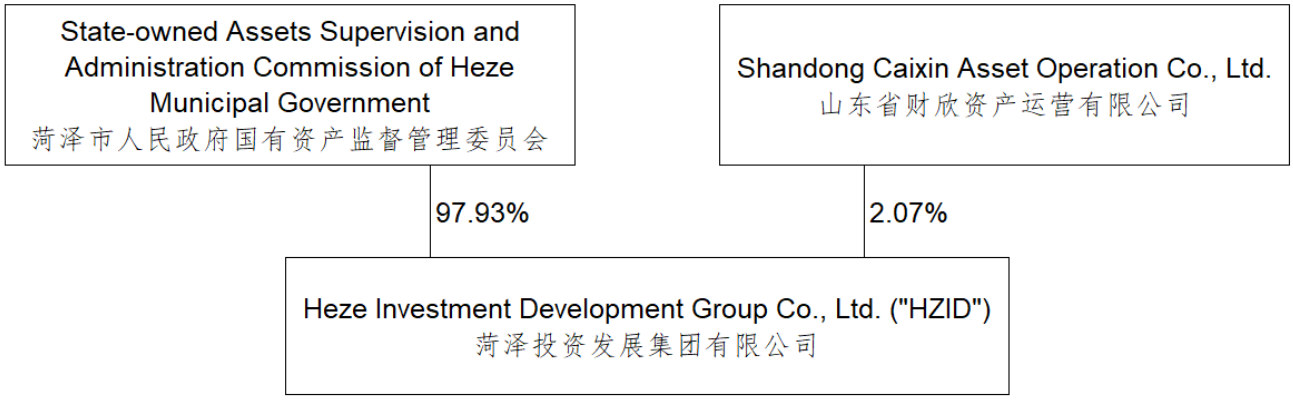
Corporate Profile

Founded in July 1990, HZID is the largest local state-owned enterprise ("SOE") by asset size, and the most important state-owned capital operation entity in Heze City. In 2025, the Heze SASAC transferred 100% equity of Heze Urban Development Investment (Group) Co., Ltd. ("HZUI") into the Company, adding new businesses

such as infrastructure construction, property development, and agricultural and sideline products trading. Meanwhile, the equity of Heze Water Affairs Group Co., Ltd. ("HZWA") was transferred out from the Company, divesting businesses including water supply, meat and by-products processing, and water conservancy construction. After the consolidation, the Company is positioned as the primary entity for the construction of urban infrastructure, state-owned capital operation, and industrial investment in Heze City. Its business includes diversified commercial activities such as commodity trading, engineering construction, public utilities, and property development.

As of 31 March 2026, the State-owned Assets Supervision and Administration Commission of Heze Municipal Government (“Heze SASAC”) had 97.93% ownership of HZID and Heze Municipal Government was the ultimate controller of HZID. Shandong Caixin Asset Operation Co., Ltd., which was wholly owned by Shandong Provincial Department of Finance, had the remaining 2.07% ownership.

Exhibit 1. Shareholding chart as of 31 March 2026



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2025

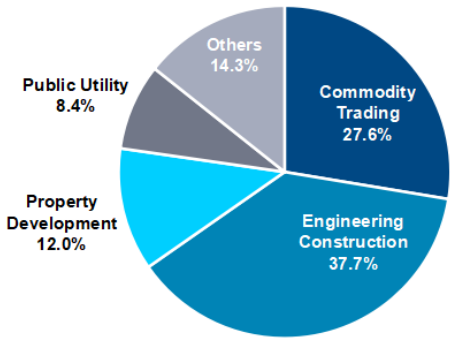
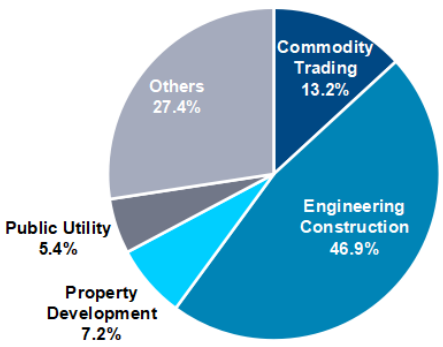


Exhibit 3. Gross profit structure in 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Most important state-owned capital operation platform in Heze City, with regional competitiveness and importance in engineering construction and public utility service

HZID is the largest state-owned asset operation entity in terms of asset size, serving as the key urban development and industrial investment platform in Heze City, playing a strong strategic role in the social, economic, and urban development of Heze City. Since its establishment, the Company has played a crucial role

in the implementation of urban and industrial infrastructure construction, and has successfully completed major construction projects. In addition, HZID is a key public utility server in Heze City, holding certain degree of regional monopoly and exclusivity in public utility services in Heze City.

HZID engaged in engineering construction business in Heze City with relevant qualifications. The Company's subsidiary, Heze Urban Construction Engineering Development Group Co., Ltd. ("HUCG"), possesses the Special-Class General Contracting Qualification for Construction, which gives the Company a comparative advantage in undertaking projects, including municipal engineering and municipal pipe network. Benefiting from its state-owned background and good qualifications, the Company newly acquired 62 high-quality contracts with total contracted amount of RMB4.4 billion in 2025. As of 31 December 2025, the Company had uncompleted contracts in hand with a total amount of RMB8.1 billion. Considering that the payment of the projects is paid according to the construction progress and some projects are supported by government special purpose funds, we expect the Company's investment pressure to be controllable. In 2025, the engineering construction business generated revenue of RMB3.0 billion for the Company, with a gross profit margin of 24.0%. This segment is the largest gross profit contributor, accounting for 46.9% of the Company's total gross profit. Moreover, the Company has actively expanded its project portfolio beyond Heze City and Shandong Province over the past years, such as Jiangsu Province and Sichuan Province. Considering the relatively large construction project reserves in hand, we expect the Company will continue to obtain increasing revenue and profit from this segment in the future due to the strong business sustainability.

HZID undertakes infrastructure and resettlement housing construction business under agency construction model. The Company signs construction agreements with the local government and entrusting parties and is responsible for overall arrangement of project fund utilization and the construction work. As of 31 December 2025, the Company had 10 major infrastructure construction projects under construction, with a total investment of RMB10.7 billion and an uninvested amount of RMB4.8 billion. However, the collection of project payment is relatively slow. Concurrently, HZID had 6 resettlement housing projects under construction, with a total investment of RMB7.8 billion and RMB3.9 billion yet to be invested and no collections received so far. The large outstanding investment scale will bring certain capital expenditure pressure to the Company. Apart from that, the Company also participated in the public-private partnership ("PPP") projects. The PPP projects had been completed, and the Company was no longer involved in construction and additional investment.

HZID provides essential and regionally dominant public services in Heze City through several subsidiaries, including heat supply and steam supply. HZID is involved in the heat supply sector, serving residential and commercial customers. As of 31 December 2025, the heating service area covers approximately 30.0 million square meters, serving approximately 85% of the urban area of Heze City, demonstrating market dominance. Moreover, HZID provides industrial steam supply to commercial customers, mainly in Heze Economic and Technological Development Zone as well as the eastern and northern urban area of Heze City, with increasing district coverage.

Relatively large revenue contribution from production and sales business along with thin profit margin

HZID also engages in production and sales business, with diversified products such as building materials, agricultural and sideline products trading, and precision mold. In 2025, revenue from building materials sales declined substantially due to falling demand for building materials, with segment revenue decreasing from RMB3.3 billion in 2024 to RMB2.2 billion. This business segment is the second largest contributor to the Company's total revenue, accounting for 27.6% of the Company's total revenue. However, the profitability is

relatively low for the production and sales business due to high production, storing and logistic costs, with its gross profit margin being 9.2% in 2025.

For the production and sales of building materials, the Company primarily produces concrete, steel components, and other relevant products. Sales contracts are usually settled through prepayment and monthly billing. HZID realized RMB1.2 billion of revenue from this business sector, accounting for half of its total production and sales revenue. Additionally, both downstream customers and upstream suppliers in this business are relatively decentralized.

The Company's meat production and processing by-products business was fully divested from the Company as of 2026. Concurrently, the Company newly engaged in the agricultural and sideline products trading business. The Company's agricultural and sideline products trading business primarily deals in commodities such as meat and meat products, fruits, grains, and edible oils. From January to March 2026, the Company generated RMB270 million in revenue from this segment, with a gross profit margin of 1.8%.

HZID's mold manufacturing business mainly serves as a mid-to-high-end plastic injection mold manufacturer and a supplier of injection-molded components. Upstream, the business features relatively low supplier concentration, whereas downstream customers are highly concentrated, primarily consisting of small home appliance manufacturers such as Joyoung and Haier. In 2025, revenue from the mold manufacturing segment reached RMB57 million, up from the previous year.

Capital expenditure pressure arising from self-operated businesses, while being susceptible to market volatility risks in property development and other service businesses

HZID also participates in other commercial businesses, including property development and construction of self-operated projects. Given the market-driven nature, the profitability of these segments in the future is uncertain and is highly vulnerable to the market conditions.

HZID's property development business mainly involves the construction and sales of residential properties in Heze City. As of 31 December 2025, the Company had 4 key projects under construction, including commercial housing and office buildings, with a total planned investment of RMB4.7 billion and an uninvested amount of RMB1.6 billion. HZID also had 2 completed real estate projects as of the same date, with a total investment of RMB1.3 billion, which have been essentially sold out. At the same time, the Company also engages in the market-oriented sales of a resettlement housing project, achieving a sale rate of 68%. Given the current downturn of China's real estate market, the Company may face certain market volatility and uncertainties during the construction, sales, and operation of its property development projects.

Besides, HZID focuses on the construction of self-operated projects. The construction costs of such self-operated projects will be balanced by the operating income generated after the construction is completed, such as leasing income, tuition and training fees, as well as sales of wood. However, the payback period is expected to be long for these projects. As of 31 December 2025, the Company had 9 key self-operated projects under construction, with a total planned investment of RMB8.8 billion and an uninvested amount of RMB2.7 billion, exerting relatively large capital expenditure pressure on the Company in the near term. The Company has applied for project loans from policy banks, such as China Development Bank, and commercial banks. In addition, some projects are still in initial stage, bringing uncertainty about future operations and fund balancing performance.

The Company also engages in security business, hotel operations, property leasing, and other service businesses, which are highly susceptible to local market conditions. These revenue streams may face growing market volatility amid growing market uncertainties.

Financial Profile

Relatively good revenue scale but with modest profitability

HZID has sustained relatively high revenue levels over the past three years, supported by its diversified business portfolio and regional comparative advantages in engineering construction and public utility businesses. In 2025, the Company's revenue slightly declined to RMB8.0 billion from RMB8.2 billion, with engineering construction being the largest revenue contributor (37.7%), followed by production and sales business (27.6%) and property development (12.0%). The Company's EBIT was RMB883.4 million in 2025, up by 0.9% year-on-year ("YoY") as compared to 2024. Over the same period, the Company's EBIT margin increased from 10.7% to 11.0%.

However, the Company's asset profitability remains relatively weak, as reflected by its return on assets. Its asset yield remained at a relatively low level, with the average return on assets recording 1.2% over the past three years. The relatively low asset yield is primarily due to the continuous expansion of its total asset base in recent years, coupled with profit growth that has not kept pace with the scale of asset growth. Considering the Company's diversified business portfolio, we expect the Company's revenue to show a growth trend over the next 12 to 18 months.

Increasing debt burden with relatively weak debt serving capability

HZID's total debt increased rapidly over the past three years, owing to the continuous investment of the construction projects and asset restructuring. Its total debt increased from RMB20.1 billion at end-2024 to RMB34.2 billion as of 31 March 2026. Driven by the rapid debt expansion following the 2025 asset restructuring, the Company's debt leverage climbed in tandem. Consequently, its total capitalization ratio (total debt/total capital) rose from 35.2% at end-2024 to 49.3% as of 31 March 2026. However, the Company bears certain short-term debt pressure, and its short-term debt to total debt ratio remained at a relatively high level of 43.3% and its unrestricted cash to short-term debt ratio was 0.3x as of 31 March 2026, which is insufficient to cover short-term debt. Due to the large uninvested amount of construction projects and maturing debt, we estimate the Company would continue to rely on external financing such as bank loans and bond issuance. As a result, its total debt would further increase over the next 12-18 months.

In addition, as the Company's debt burden increased, HZID maintained a relatively weak debt servicing capability, which is reflected by its debt serving metrics. Its total debt/EBITDA ratio was averaged at 17.3x over the past three years, and the average EBITDA coverage ratio was around 1.8x. In 2025, the Company's FFO was 0.02x, indicating that the Company primarily relies on external financing rather than operating cash flow for debt servicing. The Company's EBITDA can provide sufficient coverage for debt interest payment, but both EBITDA and FFO demonstrate inadequate coverage capability for debt principal repayment. These debt serving metrics indicate that the Company's operating profits provide insufficient coverage for its debt obligations and financing costs, necessitating reliance on external financing to meet its repayment commitments.

Modest liquidity position mitigated by diversified access to funding

HZID's asset liquidity is moderate, but it has shown improvement. As a result of the 2025 injection of subsidiary HZUI and the transfer out of subsidiary HZWA, the Company's asset composition changed substantially. As of

31 March 2026, current assets represented 65.0% of total assets, primarily consisting of inventories, cash and cash equivalents, and accounts receivable. Moreover, the Company had pledged some of its assets for loans. As of 31 March 2026, its restricted assets amounted to approximately RMB12.0 billion, representing 13.6% of its total assets. Therefore, the Company's financial flexibility may be undermined by its liquidity profile.

HZID has good access to funding given its relatively diversified funding structure, including bank loans, domestic bond issuance, and non-standard products financing, which may mitigate the debt repayment and liquidity pressure of the Company. Bank loans are the main funding source for the Company, which accounted for more than 50% of the total debt as of 31 March 2026. Moreover, the Company maintains established banking relationships with China's leading policy banks and national commercial banks, having secured RMB36.5 billion of bank credit facility as of 31 March 2026, of which RMB17.6 billion remained undrawn. Meanwhile, HZID has good access into the onshore debt capital market. For example, from January to August 2026, the Company and its subsidiary, HUCG, together issued RMB2.7 billion of onshore bonds, mainly private corporate bonds. In addition, the Company's exposure to non-standard financing was relatively low, accounting for less than 9.0% of its total debt as of 31 March 2026.

External Support

High likelihood of support from Heze Municipal Government

We expect a high likelihood of government support from the Heze Municipal Government in times of need. Our expectation incorporates the considerations of the Company's (1) status as the largest stated-owned asset operation entity and the key industrial investment platform in Heze City, with strategic importance; (2) direct ownership and ultimate control by the Heze Municipal Government; (3) importance in urban development and social livelihood in Heze City, as a key public utility services provider; and (4) good track records of receiving government support.

Heze City is a prefecture-level city of Shandong Province and is located in the southwest of Shandong Province with a good economic foundation. Heze City's Gross Regional Product ("GRP") has been ranking 8th among 16 prefecture-level cities in Shandong Province over the past three years. Heze City's economic growth is mainly driven by the key industries including the high-end chemical industry, biomedicine, mechanical and electrical equipment manufacturing, new energy and new material, agricultural and sideline products, as well as trade logistics and e-commerce. Heze City's economic strength has been increasing. In 2025, Heze City reported a GRP of RMB493.7 billion, recording an economic growth of 5.0% YoY. The general budgetary revenue increased annually on the back of steady economic growth and development of the key industries. In 2025, the general budgetary revenue rose to RMB33.3 billion from RMB32.9 billion in 2024. In the first quarter of 2026, Heze City reported a GRP of RMB117.9 billion, representing a 4.3% YoY growth.

HZID is the largest SOE in Heze City by asset size, primarily responsible for the construction of key infrastructure and resettlement housing, public utility services, and industrial investment within Heze City, playing a significant role in local urban development and state-owned assets operation.

The Heze Municipal Government maintains a high degree of control over HZID'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, and performance to the Heze SASAC. The Company has a good track record of receiving supports from Heze Municipal Government in terms of subsidies, capital injection, special funds, project payments, and equity transfer. For instance, in 2025, the local government strengthened the Company's asset size and liquidity through the injection of HZUI into and the transfer out of HZWA from the Company. During the same year, the Company received various subsidies and

grants of RMB37.3 million from the local government. Given the strategically important role of the Company in Heze City and its close relationship with the Heze Municipal Government, we believe that the HZID will continue to receive support from the local government.

ESG Considerations

HZID is exposed to environmental risks due to undertaking key infrastructure construction. 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.

The Company bears social risks as it implements public policy initiatives by playing an important role in the social welfare of Heze 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.

HZID’s governance considerations are also material as the Company is subject to oversight by Heze Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

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

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