CCXAP affirms the long-term credit rating of Hebei Xuankong Group Co., Ltd.'s at BBB_g-, with stable outlook.

Hong Kong, 11 November 2026 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Hebei Xuankong Group Co., Ltd. ("HBXK" or the "Company") at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of HBXK reflects the Xuanhua District Government's (1) relatively strong capacity to provide support and (2) extremely high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of the Xuanhua District Government's capacity to support reflects Xuanhua District's status as one of the top counties/districts in Zhangjiakou City in terms of economic strength.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important position as the largest local infrastructure investment and financing company ("LIIFC") by total assets in the Xuanhua District; and (2) good track record of receiving government support. However, the rating is constrained by the Company's 1) increasing debt level driven by large investment needs; (2) relatively concentrated funding sources; and (3) medium contingent liability risks.

Corporate Profile

Established in 2009, HBXK is the largest LIIFC in Xuanhua District in terms of asset size. It is the most important state-owned enterprise in Xuanhua District and plays an essential role in promoting the development of the local economy and society. The Company undertakes the responsibility for public infrastructure projects and welfare services, including infrastructure construction, land development, water supply and sewage treatment. HBXK also engages in some commercial activities, including commodity sales, engineering construction, funeral and cemetery service. As of 30 June 2026, the State-owned Assets Supervision and Administration Bureau of Xuanhua District, Zhangjiakou City held 100% of HBXK's shares. In 2025, as part of an internal restructuring, the Company transferred its equity interests in certain directly held subsidiaries to its subsidiary, Zhangjiakou Xuanchen Property Co., Ltd., to facilitate management and optimise state-owned capital allocation.

Rating Rationale

Credit Strengths

Important regional position in Xuanhua District. HBXK plays an important role in the development of Xuanhua District, given its leading role in the construction of infrastructure and land development, and provision of public services. As of 30 June 2026, the Company had a total of 11 infrastructure projects under construction and 5 projects under planning. The investment still required for these projects is around RMB1.0 billion. The Company is also the sole entity undertaking primary land development in the area, with repayments linked to land sales. The land development project has a total planned investment of around RMB840.0 million, with an uninvested amount of RMB440.0 million as of end-2025. The Company has

completed land consolidation of 611.0 mu, of which 186.3 mu have been settled, generating total realized revenue of RMB186.0 million. However, the Company has not yet received repayment from the local government. Meanwhile, HBXK is the sole entity to provide water supply services in Xuanhua District. The Company also provides sewage treatment in the area. This business received government subsidies of RMB40.0 million in 2025.

Good track record of receiving government support. In recognition of the importance of HBXK's businesses to Xuanhua District, HBXK has a good track record of receiving support from the local government since its establishment, in terms of subsidies, project repayment, and equity transfer. The government transferred equity of some enterprises and other assets to the Company in 2025, increasing its capital reserve by RMB1.81 billion. Over the same period, Lixia Holding received government subsidies of RMB89.9 million to support its public services operation. Considering HBXK's important public-service responsibilities and close relationship with the local government, we expect ongoing government support over the next 12 to 18 months.

Credit Challenges

Increasing debt burden driven by investment needs. HBXK's debt continued to grow with ongoing project construction investment. As of 31 December 2025, the Company's total debt increased to RMB8.6 billion from RMB7.8 billion in 2024. However, benefiting from the capital injection, its total capitalization ratio (measured by total debt to total capital), decreased to 41.8% from 43.0% in 2024. At the same time, its short-term debt accounted for 38.5% of its total debt. In addition, the cash to short-term debt ratio was 0.3x, indicating a certain short-term debt pressure. Asset liquidity also constrains financial flexibility. Inventories, other receivables and intangible assets with limited profitability accounted for around 64.5% of its total assets as of end-2025. Meanwhile, the Company has pledged a number of assets for loans, accounting for around 5.5% of its total assets.

Relatively concentrated funding sources. Bank borrowing is the major financing channel of the Company. The funding sources of the Company were concentrated from regional banks in Zhangjiakou City, such as Bank of Zhangjiakou Co., Ltd. The borrowing from local banks has higher costs compared to large national banks and is highly linked to the changes in the local financing environment. As the Company has participated in policy support projects, the Company has gradually obtained credit facilities and financing from other large policy and commercial banks such as Agricultural Development Bank of China and China Bohai Bank Co., Ltd. As of 30 June 2026, the Company had total bank credit facilities of RMB8.83 billion, with RMB2.55 billion remaining undrawn.

Medium contingent liability risks. The Company bears moderate contingent liability risk resulting from relatively large external guarantees, which could potentially increase its repayment obligations. As of 31 December 2025, the outstanding amount of the Company's external guarantees amounted to RMB3.7 billion, accounting for 31.3% of its net assets, and majority of the external guarantees was provided to local SOEs. RMB15.0 million external guarantee was provided to a private-owned enterprise in 2019, namely Zhangjiakou Hesheng

Trading Co., Ltd., with no counter-guarantee measures. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

Rating Outlook

The stable outlook on HBXK's rating reflects our expectation that the Xuanhua District Government's capacity to provide support will remain stable and the Company will maintain its important role in Xuanhua District over the next 12 to 18 months.

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the Xuanhua District Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the government's willingness to provide support, such as reduced strategic significance, significantly increased commercial exposure or deteriorated refinancing ability.

Rating Methodology

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

Regulatory Disclosures

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