

Credit Opinion

29 September 2025

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

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Hebei Xuankong Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g- long-term credit rating of Hebei Xuankong Group Co., Ltd. ("HBXK" or the "Company") reflects the Xuanhua District Government's relatively strong capacity to provide support and its 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.

The stable outlook on HBXK rating reflects our expectation that the Xuanhua District Government's capacity to provide support will be stable, and the Company's characteristics such as its significant role in Xuanhua District will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Important regional position as the largest LIIFC in Xuanhua District
- Relatively low but increasing exposure to commercial activities
- Good track record of government support
- Increasing debt level driven by large investment needs
- Relatively concentrated funding sources
- Medium contingent liability risks

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) Xuanhua District 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, significantly increased exposure to commercial activities or deteriorated refinancing ability.

Key Indicators

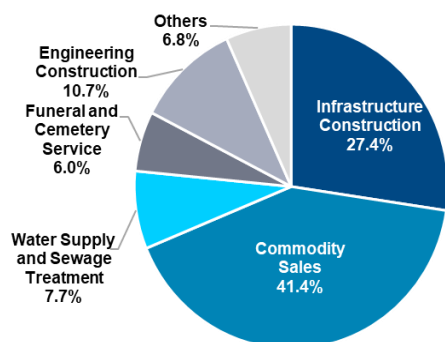
	2022FY	2023FY	2024FY
Total Asset (RMB billion)	16.0	19.7	23.0
Total Equity (RMB billion)	8.8	10.5	10.3
Total Revenue (RMB million)	433.9	916.4	786.5
Total Debt/Total Capital (%)	34.5	29.4	43.0

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

Source: Company data, CCXAP research

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 2025, the State-owned Assets Supervision and Administration Bureau of Xuanhua District, Zhangjiakou City ("Xuanhua SASAB") was the ultimate controller of the Company and held 100% shares of HBXK.

Exhibit 1. Revenue structure in 2024

Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 30 June 2025

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe the Xuanhua District Government has a relatively strong capacity to provide support given its status as one of the top counties/districts in Zhangjiakou City in terms of economic and fiscal strength, but constrained by relatively weak fiscal balance.

Zhangjiakou City is located in the northwest of Hebei Province, which is the central city in Northwest of Hebei Province and an important part of the Beijing-Tianjin-Hebei economic circle. Leveraging its superior transportation access and abundant wind and solar resources, Zhangjiakou has developed its strategic industries focusing on sports culture and tourism, big data, new energy, and green agriculture and animal husbandry. Zhangjiakou City demonstrated ongoing economic growth over the past three years. In 2024, it reported a GRP of RMB191.3 billion, representing a year-over-year ("YoY") increase of 4.6%. However, the Zhangjiakou Municipal Government has moderate fiscal metrics and a relatively high debt burden. The general budgetary revenue of Zhangjiakou Municipal Government improved from RMB18.0 billion in 2023 to RMB18.9 billion in 2024. Zhangjiakou Municipal Government's average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 27.3% over the past three years, indicating weak fiscal balance and high reliance on transfer income from Hebei Province Government to balance its general budgetary expenditure. Zhangjiakou Municipal Government has relatively high debt burden. As of end-2024, its government debt balance amounted to RMB154.7 billion, accounting for 80.9% of GRP. In the first half of 2025, Zhangjiakou City recorded a GRP of RMB89.2 billion, representing a 4.8% YoY growth.

Exhibit 3. Key economic and fiscal indicators of Zhangjiakou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	177.5	184.3	191.3
GRP Growth (%)	1.5	5.1	4.6
General Budgetary Revenue (RMB billion)	16.7	18.0	18.9
General Budgetary Expenditure (RMB billion)	60.9	69.4	66.6
Local Government Debt (RMB billion)	104.7	133.4	154.7

Source: Zhangjiakou Municipal Government, CCXAP research

Xuanhua District is located in the northwest of Hebei Province and under the administration of Zhangjiakou City with good traffic advantages and rich mineral resources. Following the development of Zhangjiakou City, Xuanhua District has focus on the 6 emerging industries, including sports culture tourism, ice and snow, big data, renewable energy, modern manufacturing as well as green agriculture and animal husbandry. In 2024, it reported a GRP of RMB18.8 billion, representing a YoY increase of 3.0%. Moreover, it ranked third in GRP among all counties and districts of Zhangjiakou City in 2024. HBIS Group Xuansteel Company ("Xuansteel") was the largest steel company and major economic contributor in Xuanhua District. However, the fiscal revenue of Xuanhua District has been affected by the relocation of Xuansteel's production and the business transformation of Xuansteel in recent years. In 2024, Xuanhua District Government's general budgetary revenue decreased from RMB1.3 billion in 2023 to RMB1.2 billion. Moreover, the Xunahua District Government's fiscal balance is relatively weak and its average ratio of general budgetary revenue to general budgetary expenditure over the past three years was 31.5%. In addition, the debt profile of Xunahua District Government is relatively weak. As of 31 December 2024, the outstanding debt of Xuanhua District Government was RMB13.8 billion, accounting for 73.0% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Xuanhua District

	2022FY	2023FY	2024FY
GRP (RMB billion)	17.4	18.5	18.8
GRP Growth (%)	-2.9	7.8	3.0
General Budgetary Revenue (RMB billion)	1.8	1.3	1.2
General Budgetary Expenditure (RMB billion)	4.4	5.0	4.2
Local Government Debt (RMB billion)	10.6	11.9	13.8

Source: Xuanhua District Government, Company information, CCXAP research

Government's Willingness to Provide Support**Important regional position as the largest LIIFC 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. The Company is also the largest and most important LIIFC under the control of the Xuanhua SASAB, with total assets of RMB23.0 billion as of end-2024.

HBXK participates in infrastructure construction mainly through the agency construction model as well as self-operated model. Under the agency construction model, the Company undertakes infrastructure construction business by signing construction agreements with the related government units and carrying out the construction work accordingly. The entrusting parties would make payments to the Company based on the actual cost plus a markup in return upon completion. As of 30 June 2025, the Company had 5 key agency

infrastructure projects under construction, with a total investment of RMB840.0 million and uninvested amount of RMB526.8 million. Under self-operated model, the Company needs to raise the construction funding itself and achieve the fund balancing through sales income and ongoing operation. As of 30 June 2025, there were 8 self-operated projects under construction, including water supply improvement projects and resettlement housing projects, with a total investment amount of RMB3.8 billion and an uninvested amount of RMB1.1 billion. As of the same date, the Company did not have any agency construction projects under planning. Meanwhile, there were 4 self-operated key infrastructure construction projects under planning with a total investment amount of RMB1.4 billion. The sustainability of the Company's infrastructure construction business is supported by its large project reserves. However, this would also bring large capital expenditure pressure to the Company.

HBXK is the sole entity in Xuanhua District that engages in primary land development business. Based on the entrustment agreement, the Company is responsible for preparing the funding for demolition and land development and the local government pays it the cost of land development plus a certain markup after the sales of land. According to the entrustment agreement, the Company is in charge of the primary land development with 617.7 mu, covering north of Dongxin District, north of Xuanchi Road, and east of planned Changchun North Road. The total planned investment of this land development project is around RMB840.0 million, and the uninvested amount was RMB388.0 million as of end-2024. As of 31 December 2024, the Company had completed land consolidation with around 611.0 mu. Among them, 186.3 mu have completed the settlement with total realized revenue of RMB186.0 million. However, the Company had not received repayments from the local government. Moreover, the land transfer process is largely susceptible to the local land market and government policies, which may also exert higher volatility during the downturn of China's property market.

The Company also provides essential public services in Xuanhua District, including water supply and sewage treatment. HBXK is the sole entity to provide water supply services in Xuanhua District, covering residential and non-residential customers. As of 31 December 2024, the Company owned a pipeline network length of around 244.6 kilometers and 2 water plants, with a total annual water supply capacity of 43.8 million cubic meters. Meanwhile, the Company also provides sewage treatment in Xuanhua District. However, the sewage treatment business has been operating at a sustained loss due to the relatively low government-regulated prices. In 2024, the Company's sewage treatment business did not receive government subsidies. As a result, its revenue significantly decreased to RMB10.0 million in 2024 from RMB108.0 million in 2023, and the gross profit margin turned negative. Moreover, the Company had one water supply plant and one sewage treatment plant under planning, with a total investment of RMB312.0 million. Upon completion, these facilities are expected to enhance the Company's water supply and sewage treatment capacity.

Relatively low but increasing exposure to commercial activities

HBXK engages in various commercial activities including commodity sales and funeral and cemetery service. Based on our assessment, the Company's exposure to commercial activities is low as the commercial assets accounted for less than 15% of total assets. However, as more self-operated projects being completed, the Company's exposure to commercial activities is expected to increase in the future.

HBXK's commodity sale business contributed considerable income to the Company but has a narrow profit margin. Major trading products commodity sales business mainly includes clean coal, asphalt, along with daily groceries and non-staple food items. Clean coal is essential material for the local people's livelihood. The Company adopts a demand-on-production or order sales model for major products and makes the confirmation on volume and prices with downstream customers before procurement. In 2024, the Company had recorded

RMB325.6 million of sales revenue from the commodity sale business, which decreased by 28.3% as compared to RMB454.0 million in 2023. The decline in trading revenue was primarily due to the Company's adjustment of its product categories in trade. However, HBXK bears relatively high concentration risks in this business segment, as the top 5 suppliers and customers accounted for 96.9% and 99.9% of the total procurement and sales of the Company in 2024, respectively.

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, special bond funds, asset injection and equity transfer. From 2021 to 2023, the local government transferred equity shares with a total amount of RMB937.0 million, which further enlarged the Company's business scope. In 2025, pursuant to the integration and consolidation plan for state-owned enterprises issued by the Xuanhua District Government, the Company's consolidation scope simultaneously incorporated and divested multiple subsidiaries. The plan resulted in 14 subsidiaries being divested and 20 subsidiaries being incorporated into the Company's consolidation scope, ultimately leading to decrease of approximately RMB33.9 million in the Company's capital reserve. We consider that the post-consolidation structure has further clarified the Company's core business scope and strategic positioning within Xuanhua District.

Moreover, from 2023 to 2024, the Company received continuous government subsidies with a total amount of around RMB245.0 million, supporting its daily operation. In 2023, the local government transferred the project fund of sewage treatment to HBXK, increasing its capital reserve by around RMB8.0 million. In June 2024, Xuanhua SASAB' shareholding on HBXK increased from 90.13% to 100% due to centralized management and improvement of management efficiency. Considering its importance to local development, we expect the Company will receive ongoing support from the local government.

Increasing debt burden driven by large investment needs

HBXK demonstrated a relatively fast debt growth during the past three years due to continuous investment in infrastructure construction projects. As of 31 December 2024, the Company's total debt increased to RMB7.8 billion from RMB4.4 billion in 2023. Meanwhile, its total capitalization ratio, as measured by total debt to total capital, also increased to 43.0% from 29.4% in 2023, indicating a moderate level of debt leverage. At the same time, the Company faced certain short-term debt pressure. As of 31 December 2024, its short-term debt amounted RMB2.0 billion, accounting for 26.1% of its total debt. In addition, the cash to short-term debt ratio was 0.1x, indicating that its cash balance was insufficient to cover its short-term debt. Considering the relatively large uninvested amount for its infrastructure projects under construction and planning, the Company may continue to rely on external financing such as bank loans for its project financing, and its total debt burden would further increase over the next 12-18 months.

HBXK also has moderate asset liquidity, which may undermine its financial flexibility. There was a significant allocation to inventories, other receivables and intangible assets with limited profitability, which together accounted for around 76.0% of its total asset. These assets mainly consist of government-transferred sand and gravel resources, development costs of infrastructure projects, land and account receivables from local governments and state-owned enterprises ("SOEs"), which are considered to have relatively low liquidity. As of 31 December 2024, the Company has pledged a number of assets for loans, such as cash and land in inventory, accounting for around 5.9% of its total assets, which weakened its financial flexibility.

Relatively concentrated funding sources from policy banks and regional banks

HBXK has access to multiple financing channels including banks, private bond issuance and non-standard financing products, of which bank borrowing is the major financing channel. Bank loan accounted for around 98.0% of the Company's total debts as of end-2024. 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 31 December 2024, the Company maintained total bank credit facilities of RMB11.0 billion, with RMB4.6 billion remaining undrawn. The Company also had a track record of issuing privately placed convertible bonds. As of 30 June 2025, the Company's privately placed convertible bonds had an outstanding amount of RMB11.8 million, with relatively high financing cost, due in October 2025. In addition, the Company has limited exposure to non-standard financing, which accounted for less than 5% of total debts as of end-2024.

Medium level of contingent liability risk

The Company bears moderate contingent liability risk resulting from relatively large external guarantees, which could potentially increase its repayment obligations. As of 31 December 2024, the outstanding amount of the Company's external guarantees amounted to RMB3.3 billion, accounting for 31.8% 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. ("Hesheng"), with no counter-guarantee measures. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks.

ESG Considerations

HBXK assumes environmental risks through its infrastructure projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

HBXK bears social risks as it plays an essential strategic role in the development of Xuanhua District. 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.

HBXK's corporate governance are also material as the Company is subject to oversight by Xuanhua District 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 [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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