

Credit Opinion

5 November 2025

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

Analyst Contacts

Peter Chong +852-2860 7124
Associate Director of Credit Ratings
peter_chong@ccxap.com

Iris Chen +852-2860 7132
Credit Analyst
iris_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Mengcheng Development Zone Xingmeng Investment Co., Ltd.

Surveillance credit rating report

CCXAP affirms Mengcheng Development Zone Xingmeng Investment Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Mengcheng Development Zone Xingmeng Investment Co., Ltd. ("XMIC" or the "Company") is underpinned by the Company's (1) important position in industrial development of Mengcheng County; and (2) moderating debt burden after restructuring.

However, the rating is constrained by the Company's (1) relatively weak profitability; (2) relatively high short-term debt repayment pressure; and (3) modest debt servicing capability.

The rating also reflects a high likelihood of support from the Mengcheng County Government and its parent company, Mengcheng County Industrial Investment Group Co., Ltd. ("MCII"), when needed, which is based on the Company's (1) ultimate control by the Mengcheng County Government; (2) strategic importance in industrial investment in Mengcheng County; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

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

Rating Drivers

- Important position in industrial development of Mengcheng County
- Business portfolio reshaping triggering significant revenue decline
- Relatively weak profitability
- Moderating debt burden after restructuring, but with relatively high short-term debt repayment pressure
- Modest debt servicing capability
- High likelihood of support from the Mengcheng County Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government and parent company's capacity or willingness to provide support strengthens; and (2) 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 credit quality of local government and parent company deteriorates or the likelihood of support is expected to be weakened; or (2) the Company's standalone credit quality worsens significantly, including a material deterioration in credit metrics and poor debt management.

Key Indicators

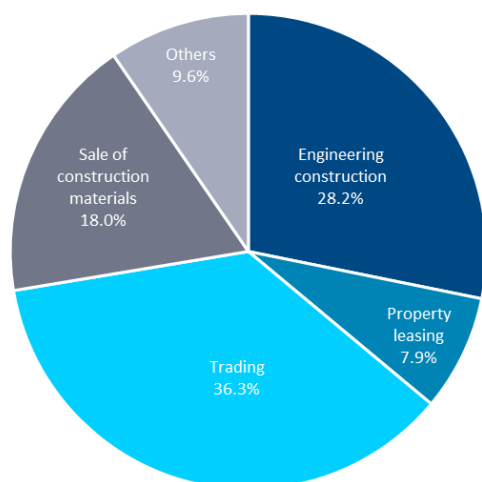
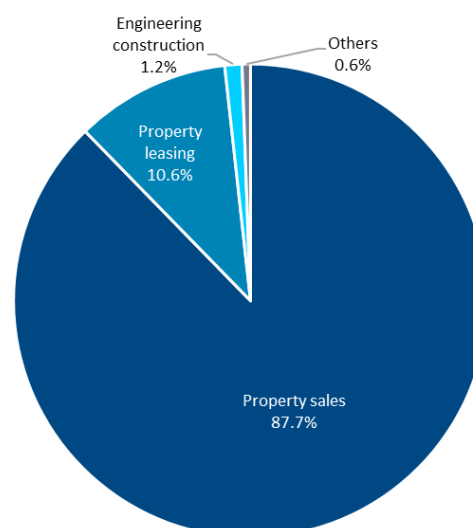
	2022FY	2023FY	2024FY	2025H1
Total Assets (RMB billion)	8.0	10.0	10.7	7.1
Total Equity (RMB billion)	4.3	4.5	4.7	3.5
Total Revenue (RMB billion)	0.8	0.7	0.3	0.1
Net Profits (RMB million)	73.4	89.2	32.2	33.9
EBIT Margin (%)	11.0	13.4	16.6	-
Return on Assets (%)	0.5	0.6	0.2	-
Total Debt/Total Capital (%)	41.9	52.4	53.3	38.0
Total Debt/EBITDA (x)	20.6	29.2	50.5	-
EBITDA/Interest (x)	1.6	4.9	0.9	-
FFO/Total debt (%)	6.0	3.9	1.7	-

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

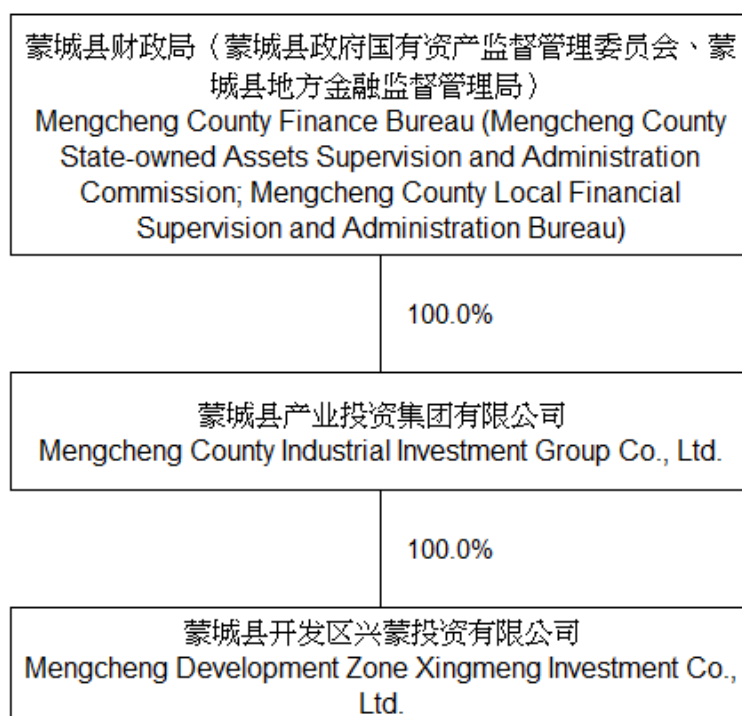
Source: Company data, CCXAP research

Corporate Profile

Founded in 2017, XMIC is a key state-owned enterprise in Mengcheng County of Bozhou City. In 2025, in accordance with government directives, the Company was repositioned as an industrial investment entity following a restructuring. The Company is mainly engaged in property leasing, engineering construction, and industrial investment. At mid-2025, the Mengcheng County Finance Bureau was the ultimate controlling shareholder of the Company, holding 100.0% of the Company's equity interests through MCII.

Exhibit 1. Revenue structure in 2024**Exhibit 2. Revenue structure in 2025H1**

Source: Company information, CCXAP research

Exhibit 3. Shareholding Chart as of 31 July 2025

Source: Company information, CCXAP research

Rating Considerations

Business Profile

Important position in industrial development of Mengcheng County

XMIC plays an important strategic role in supporting and promoting the urbanization and industrialization of

Mengcheng County. A significant change occurred in 2025 following a government-led restructuring, the 100.0% equity of Anhui Xingzhi Enterprise Management Co., Ltd., which was a wholly-owned subsidiary of XMIC, was transferred to the Mengcheng County Finance Bureau and renamed as MCII, and the 100.0% equity of XMIC was then transferred to MCII. The restructuring was formally completed in July 2025, placing XMIC under the full ownership of the MCII and ultimately controlled by Mengcheng County Finance Bureau. Furthermore, several subsidiaries primarily engaged in trading and leasing of construction materials were transferred out of the Company to MCII.

In line with its platform company mandate, XMIC also invests in industries such as healthcare, new energy vehicles through industrial funds. As of 31 March 2025, the Company had participated in 6 funds, 3 of which is active with a total committed capital amounted to RMB220.0 million, of which RMB178.0 million had been paid-in. From 2023 to 2025H1, the Company achieved investment profit of RMB2.5 million. Overall, the Company's industrial funds business operates on a relatively modest scale and the future investment returns warrant close monitoring with several funds already in the process of liquidation and exit.

The Company is also involved in the property leasing business, mainly including factories. As of 31 March 2025, the Company's total leasable property assets, including the paper products industrial park and the southern section of the startup park, amounted to approximately 896,600 square meters, with 409,500 square meters already leased. The Company recorded rental income of RMB46.6 million in 2023 and RMB27.0 million in 2024, primarily due to the one-off inclusion of government subsidies in 2023. We expect the leasable properties and rental income can provide supplementary income to the Company. However, the leasing progress is highly related to local industrial development and the progress of investment attraction, which may bring greater uncertainties to the Company.

Business portfolio reshaping triggering significant revenue decline

The Company is responsible for security business in Mengcheng County. The security business mainly provides labor dispatch and security services within industrial parks the Company operates. This business contributes less to the Company's overall revenue as it accounted for less than 5% of the Company's total revenue in 2024.

XMIC was engaged in engineering construction through its subsidiary and the construction projects are mainly within Mengcheng County acquired through tender invitations and public bidding. However, the Company's subsidiary, Anhui Tongcheng Construction Engineering Co., Ltd., which had been responsible for the engineering construction business, was transferred out in the progress of restructuring of state-owned enterprises in Mengcheng County in July 2025, which contributed 28.2% of Company's income in 2024. Moreover, the Company's subsidiaries, Mengcheng County Zhuangzi Import and Export Trading Co., Ltd. and Anhui Xingchuang Building New Materials Technology Co., Ltd., which had been responsible for the trading and leasing of construction materials businesses, were transferred out in the progress of restructuring of state-owned enterprises in Mengcheng County in July 2025, which contributed 36.3% and 18.0% of Company's income in 2024, respectively.

The Company plans to diversify its operations by venturing into new sectors, including photovoltaic glass production and microgrid systems. Additionally, the Company will expand into transportation services, covering the shipment of minerals and automotive components. These initiatives are expected to diversify and strengthen the Company's revenue streams.

Financial Profile

Relatively weak profitability

Affected by downturn in the construction and property markets, XMIC's total revenue decreased from RMB708.6 million in 2023 to RMB342.3 million in 2024. The trading business was still the main contributor, accounting for 36.3% of total revenue in 2024, followed by engineering construction (28.2%), and sale of construction materials (18.0%). However, revenue is expected to further fall substantially in 2025 following the subsidiaries divestitures. In 2025H1, the Company achieved revenue of RMB124.8 million, down by 42.8% year-on-year ("YoY"). In 2025H1, the Company recognized RMB109.4 million in revenue from the sale of an industrial park. However, this transaction does not represent a sustainable revenue stream. The Company achieved cumulative investment profit of RMB2.5 million from 2023 to 2025H1, offering negligible offset to the substantial revenue loss and profitability decline resulting from the divestiture of its core subsidiaries.

XMIC's profitability is relatively weak as reflected by the weak return on assets and moderate EBIT margin. In 2024, the Company's EBIT margin was 16.6%, while the return on assets was 0.2%. The asset profile is of moderate quality, supported by tangible investment properties but burdened by slow-moving inventory and extended receivables, constraining overall liquidity. As of 30 June 2025, its account receivables, other receivables and inventories accounted for around 61.6% of total assets. The Company's inventories mainly include land assets and the cost of construction works, while receivables are mainly receivables from the local government, which are considered low liquidity. On top of that, as of 30 June 2025, the Company's investment properties accounted for around 17.4% of the total assets, providing supplementary income to the Company. We expect the Company's gross profit to be heavily affected by the transfer out of subsidiaries in July 2025 and the Company's profitability is expected to remain relatively weak.

Moderating debt burden after restructuring, but with relatively high short-term debt repayment pressure

Due to restructuring of MCII and XMIC in July 2025, the Company's total debt decreased to RMB2.1 billion as of 30 June 2025 from RMB5.0 billion at end-2023. Moreover, the Company's total equity decreased from RMB4.5 billion to RMB3.5 billion, and the total capitalization ratio decreased to 38.0% from 52.4% over the same period.

The Company is exposed to relatively high short-term debt repayment pressure as its short-term debt accounted for 64.2% of its total debt as of 30 June 2025. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.5x, indicating that its cash reserve could not fully cover the short-term debt. Considering the Company's moderate investment needs from its business, we anticipate a reduced need for external financing, which will allow the Company to maintain its total debt at a manageable level.

Modest debt servicing capability

As the Company's revenue decreased, XMIC's long-term debt servicing capability is modest. Total debt/EBITDA ratio increased to 50.5% in 2024, compared with 29.2% in 2023. The sharp decline in the EBITDA interest coverage ratio (from 4.9x at end-2023 to 0.9x at end-2024) indicates a severely weakened ability to service its debt from core operating earnings. Similarly, the FFO/Total Debt ratio decreased from 3.9% to 1.7% over the same period, elevating its liquidity and refinancing risks.

The Company access to funding mainly include bank loans and offshore bonds. As of 30 June 2025, the bank loans accounted for around 60.0% of the total debt. Meanwhile, the Company has certain standby liquidity. It had total credit facilities of RMB7.9 billion from domestic policy banks and commercial banks, and an available

amount of RMB2.6 billion. In addition, the Company expanded its funding channels by issuing two tranches of offshore bonds in July and August 2023 to raise a total of RMB810.0 million. Given the Company's relatively high debt repaying pressure, we consider the Company will continue to broaden its financing channels, such as increasing its credit facilities from banks.

External Support

High likelihood of support from the Mengcheng County Government

We anticipate the Company has a high likelihood of support from the Mengcheng County Government and its shareholder when necessary, given its (1) ultimate control by the Mengcheng County Government; (2) strategic importance in industrial investment in Mengcheng County; and (3) solid track record of receiving support from the local government including subsidies, capital injections and asset transfers.

We believe that the Mengcheng County Government has relatively strong capacity to provide support, given its ongoing economic growth, but constrained by its relatively weak fiscal metrics. Mengcheng County's GRP increased by 5.9% YoY to RMB54.9 billion in 2024, ranking second among all districts in Bozhou City. Mengcheng County Government's general budgetary revenue also grew from 3.9 billion in 2023 to RMB4.0 billion in 2024. The debt profile of the Mengcheng County Government is relatively weak as the outstanding debt balance of Mengcheng County Government was RMB23.3 billion at end-2024, accounting for 42.4% of GRP.

Ultimately owned and controlled by the Mengcheng County Finance Bureau, MCII is the most important industrial investment and state-owned assets operation entity in Mengcheng County. In addition, the Mengcheng County Government maintains a high degree of control over XMIC's operations through MCII, including the formulation of business strategies and the appointment of the board of directors and key management personnel. XMIC is also required to report its annual budget, objectives, plans and performance to MCII. Furthermore, MCII has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections.

Given its important strategic position in Mengcheng County, XMIC has a good track record of receiving ongoing government payments, in the form of operating subsidies, capital injections, project payments, and high-quality asset transfers. From 2021 to 2023, the Company received capital injection of RMB890.7 million in cash and paid-in capital of RMB922.0 million from the Mengcheng County Finance Bureau, substantially enhancing its capital strength. The Company also received property assets with evaluation value of RMB369.1 million in 2021 and property assets with evaluation value of RMB15.5 million in 2023 without compensation. From 2023 to 2025H1, the Company continuously received government subsidies with a total amount of around RMB1.1 billion, including fiscal and operating subsidies, which support its future investments and debt repayments.

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.

XMIC is also exposed to social risks as an industrial investment entity in Mengcheng County. 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 \(April 2019\)](#).

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656