

Credit Opinion

11 December 2025

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

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Zouping Huirong Industrial Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Zouping Huirong Industrial Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Zouping Huirong Industrial Investment Group Co., Ltd. ("ZPHR" or the "Company") reflects the Company's (1) strong regional competitiveness in public utility services and industrial development in Zouping City; and (2) supplementary income benefited from a relatively diverse business structure.

However, the rating is constrained by the Company's (1) relatively weak profitability with low return on assets; and (2) fast-growing debt with weak credit metrics.

The rating also reflects a high likelihood of support from the Zouping City Government when needed, given the Company's (1) direct ownership and ultimate control by the Zouping City Government; (2) regional importance in urban operation and industrial development in Zouping City; and (3) good track record of receiving ongoing government support.

The stable outlook on ZPHR's rating reflects our expectation that the Company will maintain its regional competitiveness and importance in market-driven activities in Zouping 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

- Strong regional competitiveness in public utility services in Zouping City
- Important position in industrial park development and operation in Zouping City
- Supplementary income from commodity sales and other businesses
- Relatively weak profitability with low return on assets
- Fast-growing debt with weak debt servicing capability
- High likelihood of support from the Zouping City Government

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government support for the Company improves; or (2) the Company's stand-alone credit profile improves significantly, such as improving financial profile including an increase in capital strength and profitability.

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 financial leverage or weakened liquidity position.

Key Indicators

	2022FY	2023FY	2024FY	2025H1
Total Assets (RMB billion)	5.2	10.6	8.4	9.1
Total Equity (RMB billion)	2.1	6.0	3.8	3.8
Total Revenue (RMB billion)	0.8	0.9	1.2	0.4
Net Profit (RMB million)	81.7	56.1	109.4	-21.9
EBIT Margin (%)	19.3	15.4	16.6	3.2
Return on Assets (%)	3.0	1.8	2.0	-
Total Debt/Total Capital (%)	31.5	28.8	43.8	52.4
Total Debt/EBITDA (x)	5.1	14.5	8.4	-
EBITDA/Interest (x)	6.2	2.5	3.4	-
FFO/Total Debt (%)	6.6	5.2	11.6	-

All ratios and figures are calculated using CCXAP's adjustments. Indicators marked with "-" are not applicable or not comparable.

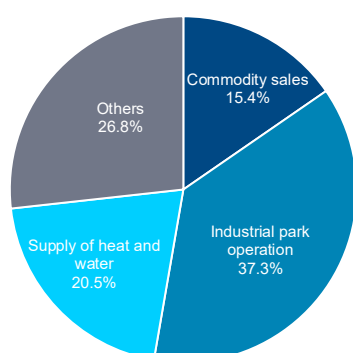
Source: Company data, CCXAP research

Corporate Profile

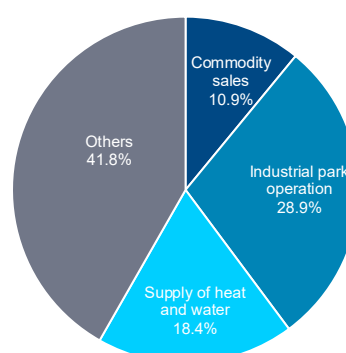
Established in 2020, ZPHR is a local state-owned enterprise mainly operating in Zouping City, a county-level city in Binzhou City, Shandong Province. It is positioned as the only industrial platform in Zouping City and is mandated to promote regional industrial upgrading. The Company is mainly engaged in the public utility services such as the supply of water, steam, heat and electricity, as well as the processing and sales of aluminum products, investment and operation of industrial parks, and leasing business. As of 30 September 2025, the Company was directly owned and controlled by the Zouping City State-owned Assets Center.

Exhibit 1. Shareholding chart as of 30 June 2025

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2024**Rating Considerations****Business Profile****Strong regional competitiveness in public utility services in Zouping City**

ZPHR has strong regional competitiveness in the provision of public utility services in Zouping City. The public utility services include the supply of heat, steam and water, which provide the Company with stable revenues and cash flow. It has relatively strong public welfare and regional characteristics, resulting in high entry barriers.

ZPHR is the sole heat supplier in Zouping City and has a dominant market position. The Company's heating business covers the entire Zouping City, with a service area of approximately 7.1 million square meters. It is divided into residential heating, non-residential heating, and industrial gas supply, with residential heating accounted for around 90% of its total supply. As of 30 June 2025, the Company had a heating network length of 350.0 kilometers, with a total heating capacity of 10 million square meters, providing heating services to around 64 thousand households, covering 294 communities. The heat supply has a quasi-public attribution, and the price is regulated by the government, which was around RMB22.0 per square meter for residents and RMB32.0 per square meter for non-residents. As of 30 June 2025, the Company had 2 heat supply pipelines upgrading projects under construction with a total investment of RMB54.3 million and uninvested amount of RMB41.2 million. The completion of these projects is expected to increase the heating business's revenue due to the enlargement of the service area and improvement of heating efficiency.

ZPHR also provides water supply services in Zouping City, including water purification, rural tap water and water quality testing services, serving more than 247.5 thousand households with a coverage area of 61.5 square kilometers. As of 30 June 2025, the Company ran a water purification plant with an annual water purification

capacity of 15 million tons. Meanwhile, the Company provides rural tap water services to 12 towns through one water supply facility with a daily capacity of 42.0 thousand tons. In addition, the Company provides water and wastewater testing, technical consultation, and technical services to users.

In 2024, the revenue from public utility services increased by 0.2% year-on-year (“YoY”) to RMB236.2 million and the gross profit margin was around 26.7%. The public utility services are essential for urbanization development and social welfare, which have lower cyclical risks. We believe that the Company has a strong competitive position in the region, underpinned by its high replacement cost, as these public services are vital to the citizens of Zouping City.

Important position in industrial park development and operation in Zouping City

Fostering the industrial development of Zouping City, ZPHR is responsible for investment attraction and asset operation for the industrial parks, such as the Weiqiao Aluminium Deep Processing Industrial Park, including investment attraction, standard factory building and leasing, as well as comprehensive services such as energy supply and safety protection. As of 30 June 2025, the Company had one main industrial park under operation, with a total leasable area of 730 thousand square meters and occupancy rate of more than 90%. The enterprises that settled in are mainly the aluminum processing enterprises and papermaking enterprises. At the same time, it had one industrial park project under construction as of same date, namely the Aluminium Deep Processing Industrial Park Phase 4, with an estimated total investment amount of RMB880.0 million and an uninvested amount of RMB698.0 million. The Company achieves capital balance mainly through leasing and fees from energy supply. Upon the completion of the projects, the leasable area of the Company's aluminum products industrial park is expected to further increase, driving growth in operating income.

In addition to industrial parks leasing, the Company's park operations also provide energy supply services. This business model is based on sales-driven procurement, whereby the Company purchases electricity, steam, water and other energy sources and sells to the companies located in the parks. Both procurement and sales prices are based on market rates. From 2023 to 2024, the revenue from industrial park operation increased to RMB398.2 million, with gross profit margins of 24.6%. However, this business is susceptible to external environmental influences, resulting in relatively unstable operating revenue and gross profit margin, which requires attention to the subsequent stability of profitability in the future.

Supplementary income from commodity sales and other businesses

In line with the industrial development of Zouping City and based on the local aluminum industry chain, ZPHR manufactures, processes and sells aluminum products in Zouping City, mainly aluminum engine parts for automobiles. The main downstream customers are electric vehicles and fuel vehicles manufacturers. This business is the third largest contributor to the total revenue, contributing for 15.4% of the Company's revenue in 2024. In 2024, the aluminum sales business's revenue grew to RMB176.9 million from RMB175.8 million in 2023, owing to the market recovery. However, this segment is cyclical, as the underlying products are sensitive to economic cycles and price volatility. The gross profit margin of this business sector also increased from 16.0% to 21.2% in 2024. In 2024, the Company's top five suppliers accounted for 71.5% of the total procurement value, and the top five customers accounted for 80.2% of the total sales value. The concentration risks increased, while the sales ratio of single customer or supplier remained below 30%. We expect that the scale and capacity of the Company's aluminum sales will remain stable in the next 12-18 months.

Through its subsidiaries, ZPHR also engages in commodity trading. Relying on the advantages of the local industrial chain, the trading products include liquid aluminum, clean coal, steel scrap, coke, and crude oil. The

Company adopts a demand-on-purchase model, which means that the Company only makes procurement with upstream suppliers when orders from downstream customers are made, earning the trade differences. In 2024, trading revenue reached RMB11.4 million, contributing to less than 1% of total revenue.

The Company has a range of leasable properties, mainly public utilities such as hospitals, health centers, and reservoirs. The tenants are mostly government-related units for public utilities. The leasable assets are transferred by the government, acquired or self-built by the Company. The occupancy rate of leasable properties is over 90%, and the leasing terms are typically 4-5 years, bringing a relatively stable cashflow to the Company. However, in 2024, the health centers were transferred out under the guidance of Zouping City State-owned Assets Center. After the transfer, the rental income is expected to decline slightly in the future.

The Company is also involved in other commercial activities, such as engineering construction, property management, and financial guarantee business, which account for less than 5% of the Company's revenue in 2024. In 2024, The Company also sold the land use right of the Public Security Bureau, the land and real estate of the Epidemic Prevention Station as well as the land and real estate of the Water Conservancy Bureau, generating an income of RMB189.3 million. However, this type of business lacks sustainability. Therefore, there is uncertainty about future operations.

Financial Profile

Relatively weak profitability with low return on assets

ZPHR's revenue in 2024 increased mainly driven by the expansion of its industrial park business and aluminum product sales business, as well as the one-time income generated from the Company's sale of real estate and intangible assets in 2024. From 2023 to 2024, the Company's total revenue increased significantly from RMB924.6 million to RMB1.2 billion. The income from industrial park operation is the main contributor, accounting for 37.3% of the Company's total revenue in 2024. However, this business is susceptible to macroeconomic fluctuations and the operational performance of tenant enterprises, and there is uncertainty regarding its future returns. The Company's gross profit increased by RMB109.3 million, representing a YoY growth rate of 47.0%. The improvement was mainly due to the boosted sales of high-margin single products in the aluminum product production and sales business in 2024. Meanwhile, with the expansion of heating coverage and water supply scale, the revenue and gross profit of the heating and water supply segments also grew. In addition, the Company sold many intangible assets such as land use rights in 2024, most of which were transferred by the government. Although this segment of business has generated substantial one-time income, it lacks sustainability in the future. The Company's EBIT margin increased from 15.4% in 2023 to 16.6% in 2024, while the return on assets also increased from 1.8% to 2.0% over the same period.

Despite the operating profit has been increasing, the profitability of ZPHR remains relatively weak, indicated by the low EBIT margin and return on asset ratio.

Fast-growing debt with weak credit metrics

Due to the expansion of its business scope and projects under construction, ZPHR's total debt has been growing rapidly over the past three years. As of 30 June 2025, the Company's total debt increased to RMB4.1 billion from RMB2.4 billion as of end-2023, and its capitalization ratio (total debt to total capital) also increased from 28.8% to 52.4% over the same period.

ZPHR's stand-alone debt-serving metrics are weakened by its increasing debt burden. The Company's debt servicing capacity was weakened as the total debt/EBITDA ratio increased significantly from 14.5x in 2023 to

23.9x as of 30 June 2025, while the EBITDA/total interest ratio increased from 2.5x to 4.1x over the same period. The Company's refinancing pressure has eased somewhat given its short-term debt accounting for 21.2% of total debt, decreasing from 35.5% at end-2023, and the cash to short-term debt ratio was 0.5x as of 30 June 2025. However, as the Company's business is expanding rapidly and the demand for debt financing continues to grow, ZPHR remains moderate refinancing pressure.

The Company's external financing channels are mainly bank loans and special purpose bonds, which accounted for 46.3% and 49.3% of the total debt respectively as of 30 June 2025. Its financing channels concentrated on regional banks such as urban commercial banks. As of 30 June 2025, the Company had total bank facilities of RMB1.8 billion, with an available amount of RMB407.0 million. Moreover, the Company had a manageable exposure to non-standard financing as of end-June 2025, mainly financial leasing, which accounted for approximately 4.2% of the total debt.

The Company's cash generation capacity of the core business is good, with an average cash-to-revenue ratio above 3.0x over the last three years. Its FFO/total debt ratio also increased to 11.6% in 2024, compared to 5.2% in 2023. However, given the Company's further business expansion, its debt levels may continue to increase in the future. The Company's proportion of restricted assets is relatively high, which may have a negative impact on its financing flexibility. As of 31 December 2024, the Company had pledged assets mainly including cash, investment properties and intangible assets, with a total amount of RMB1.3 billion for loans, accounting for 15.4% of its total assets.

External Support

High likelihood of support from the Zouping City Government

We expect a high likelihood of government support from the Zouping City Government in times of need. Our expectation incorporates the considerations of the Company's (1) direct ownership and ultimate control by the Zouping City Government; (2) regional importance in urban operation and industrial development in Zouping City; and (3) good track record of receiving ongoing government support, including capital injection, equity transfers, and financial subsidies.

Zouping City is a county-level city located in the southern of Binzhou City. It has developed 5 national-level name cards of China's Cotton Textile City, China's Sugar Capital, China's Corn Oil Township, Zouping National High-end Aluminum High-tech Industrialization Base, and National New Industrialization Industry Demonstration Base. Riding on its industrial development, Zouping City has been experiencing continuous economic growth for the past three years. Zouping City's GRP increased by 5.1% YoY to RMB72.1 billion in 2024, ranking the 1st among nine districts/counties in Binzhou City. During the first three quarters of 2025, Zouping City achieved GRP of RMB52.4 billion, representing a YoY increase of 5.0%. Its general budgetary revenue also increased for years to RMB8.6 billion in 2024, of which tax revenue accounted for 72.3% of its general budgetary revenue, indicating relatively good fiscal quality.

The shareholding structure and business operations of the Company are closely linked to the local government. The Zouping City Government maintains a high degree of control over the operations of ZPHA, 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 Zouping City State-owned Assets Center.

Given its regional significance in the urban operation and industrial development of Zouping City, ZPHR has a good track record of receiving government support, including capital injection, equity and assets transfer, and

financial subsidies. In 2024, the Zouping City State-owned Assets Center injected a total of RMB791.5 million in cash into the Company, significantly increasing its paid-in capital. The Company also received equity and asset transfers from the local government, which strengthened the Company's capital strength and broadened its business scope. For instance, in 2024, the local government transferred a wide range of assets to the Company, including buildings, equity, land and cash. Moreover, from 2024 to 2025H1, the Company received ongoing subsidies of RMB2.5 million to support its operations. In addition, the Company has obtained special-purpose bonds from the government for its industrial park construction projects. Specifically, the completed Phase I and Phase II of Zouping Aluminum Processing Industrial Park received a total of RMB434.0 million, while the industrial park under construction was also allocated RMB370.0 million through government special-purpose bonds. We expect the Company will continue to receive support from the local government in the future, which will enhance its operating and capital strength accordingly, in our view.

ESG Considerations

ZPHR is exposed to environmental risks through the construction and operation of its industrial parks. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

ZPHR bears social risks as it undertakes the provision of public utility services in Zouping City. The public utility services include the supply of heat, steam and water. 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.

ZPHR's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government. In addition, the Company has been in operation for a relatively short period, with frequent changes in subsidiary shareholdings. The Company's actual control over its subsidiaries requires strengthening, and attention must be paid to any subsequent change in the scope of consolidation.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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