

Credit Opinion

29 December 2025

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

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Sanya Investment Construction Operation Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Sanya Investment Construction Operation Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Sanya Investment Construction Operation Group Co., Ltd. ("SICG" or the "Company") reflects Sanya Municipal Government's (1) very 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 Sanya City's capacity to provide support reflected by its policy advantages of the free trade port and its abundant tourism resources, with ongoing economic and fiscal growth as well as good fiscal balance.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) position as the sole urban comprehensive operator in Sanya City with strong regional exclusivity; and (2) good track record of receiving support from the local government.

However, the rating is constrained by the Company's (1) moderate debt leverage; and (2) weak asset liquidity.

The stable outlook on SUCG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its strategic position in the development of Sanya City for the next 12 to 18 months.

Rating Drivers

- Sole urban comprehensive operator in Sanya City with strong regional exclusivity
- Low exposure to commercial activities
- Good support track record of receiving from the local government
- Moderate debt leverage
- Weak asset liquidity
- High reliance on bank loans

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as decrease in debt leverage or improvement in assets quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in debt burden.

Key Indicators

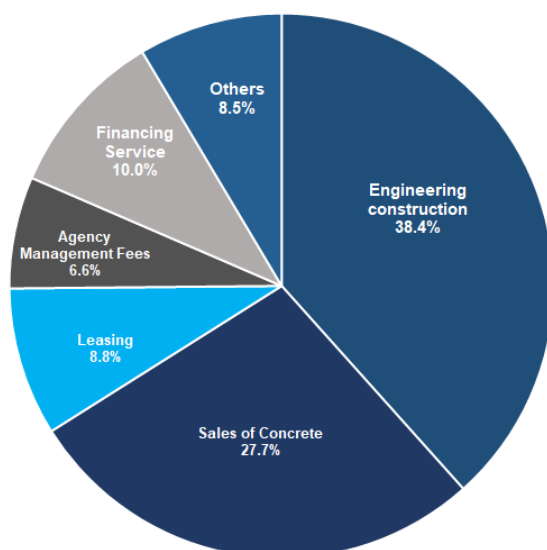
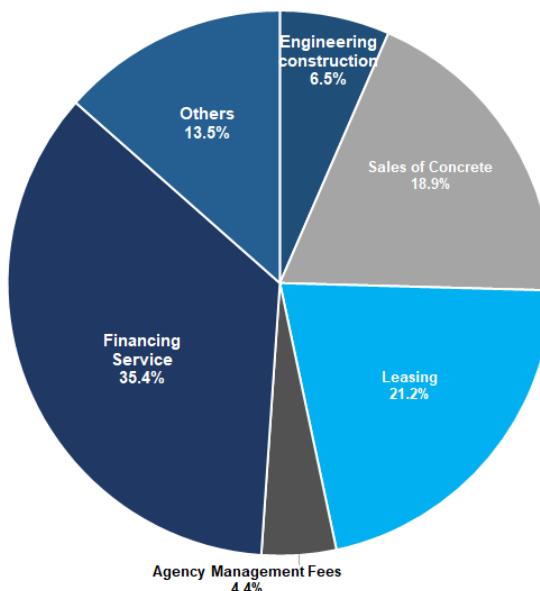
| | 2023FY | 2024FY | 2025Q1 |
|------------------------------|--------|--------|--------|
| Total Asset (RMB billion) | 73.0 | 67.5 | 69.1 |
| Total Equity (RMB billion) | 31.2 | 31.8 | 32.0 |
| Total Revenue (RMB billion) | 0.8 | 1.2 | 0.3 |
| Total Debt/Total Capital (%) | 52.5 | 47.8 | 47.6 |

All ratios and figures are calculated using CCXAP's adjustments

Source: Company data, CCXAP research

Corporate Profile

Established in June 2024, the Company has been positioned as Sanya's sole urban comprehensive operator, primarily engaged in infrastructure and affordable housing construction, urban renewal, property leasing and management, engineering construction, and building material products sales, sanitation, and landscaping. As of 31 March 2025, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Sanya Municipal Government ("Sanya SASAC").

Exhibit 1. Revenue structure in 2024**Exhibit 2. Gross profit structure in 2024**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Sanya City Committee has strong capacity to provide support as reflected by its policy advantages of the free trade port and its abundant tourism resources, with ongoing economic and fiscal growth and good fiscal balance.

Hainan Province is a key region for tropical agriculture in China and a key production base for natural rubber, with a solid foundation in tropical crop cultivation and related processing industries, such as rubber, coconut, and betel nut. Hainan Province's gross regional product ("GRP") reached RMB793.6 billion in 2024, representing a year-on-year ("YoY") increase of 3.7%. For the first three quarters of 2025, the GRP of Hainan Province grew by 3.9% to RMB568.7 billion. Hainan Province has maintained stable financial strength. Its general budgetary revenue decreased slightly from RMB90.1 billion in 2023 to RMB89.1 billion in 2024.

Exhibit 3. Key Economic and Fiscal Indicators of Hainan Province

| | 2022FY | 2023FY | 2024FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 681.8 | 755.1 | 793.6 |
| GRP Growth (%) | 0.2 | 9.2 | 3.7 |
| General Budgetary Revenue (RMB billion) | 83.2 | 90.1 | 89.1 |
| General Budgetary Expenditure (RMB billion) | 209.7 | 224.9 | 229.3 |
| Local Government Debt (RMB billion) | 348.7 | 410.6 | 498.8 |

Source: Statistics Bureau of Hainan Province, CCXAP research

As the southernmost international tourism city in Hainan Province, Sanya City is a leading force for the development of Hainan Free Trade Port. Sanya has focused on developing four leading industries: tourism, modern services, high-tech industries, and high-efficiency agriculture. In addition, Sanya City possesses a tourism-driven economic structure, showing strong growth potential and distinctive advantages. With the deepening development of the Hainan Free Trade Port and the full launch of customs closure operations on 18

December 2025, coupled with the implementation of institutional innovations such as free cross-border capital flows, Sanya City will leverage its tropical coastal tourism resources and its advantages in offshore duty-free shopping to further unleash its potential in areas such as building an international tourism consumption center, developing offshore finance, expanding foreign trade, and upgrading cross-border e-commerce, making it an important node city linking the domestic and international dual circulation. Benefit from the policy support of free trade port and tourism recovery, the GRP of Sanya City achieved RMB100.5 billion in 2024, accounting for 12.7% of the provincial GRP, with a YoY increase of 3.4%. For the first three quarters of 2025, the GRP of Sanya City grew by 5.5% to RMB72.0 billion. Sanya Municipal Government's fiscal strength remained stable along with economic growth. Its general budgetary revenue increased from RMB14.7 billion in 2023 to RMB15.4 billion in 2024, of which tax income accounted for 68.5%. Besides, Sanya City maintains a relatively good fiscal balance, with a general budgetary revenue to general budgetary expenditure ratio of 61.1% in 2024.

Exhibit 4. Key Economic and Fiscal Indicators of Sanya City

| | 2022FY | 2023FY | 2024FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 84.7 | 97.1 | 100.5 |
| GRP Growth (%) | -4.5 | 12.0 | 3.4 |
| General Budgetary Revenue (RMB billion) | 9.8 | 14.7 | 15.4 |
| General Budgetary Expenditure (RMB billion) | 22.9 | 23.3 | 25.3 |
| Local Government Debt (RMB billion) | 51.4 | 59.5 | 74.7 |

Source: Statistics Bureau of Sanya City, CCXAP research

Government's Willingness to Provide Support

Sole urban comprehensive operator in Sanya City with strong regional exclusivity

As the sole urban comprehensive operator in Sanya City, the Company undertakes infrastructure development and affordable housing construction in the region. It plays a vital role in delivering various public infrastructure projects in Sanya City, including schools, hospitals, roads, and environmental improvement projects, with great contributions to local urban and social development. We believe the Company will not be easily replaced in the foreseeable future.

Currently, the Company executes infrastructure projects under agency construction model, which means the Company is only responsible for the project management, and recognizes management fee at 1.0% to 3.0% of the project investment based on completion progress. As of 31 March 2025, the Company had 10 key agency construction projects under construction with a total planned investment of RMB6.3 billion, and RMB1.4 billion remaining to be invested. The Company also had 2 key planned agency construction projects with total planned investment amounting to RMB584.2 million. Besides, for the Company's completed infrastructure projects under repurchase model, the repayment collection has been delayed. As of the end of 2024, the balance of long-term receivables formed from such project investments amounted to RMB45.3 billion, with uncertainty in the repayment collection.

The Company is also an important affordable housing construction entity in Sanya City, primarily responsible for the development, construction, and sales of shantytown renovation, resettlement housing, and affordable housing. As of 31 March 2025, the Company had invested RMB17.3 billion into the completed affordable housing projects, with achieved project payment of RMB8.2 billion, indicating lagged payment progress. Besides, as of 31 March 2025, the Company had 6 ongoing and planned projects in total, with an uninvested amount of RMB11.2 billion, exerting large capital expenditure pressure but providing certain sustainability for this business.

The Company also participates in urban renewal projects through joint ventures with local real estate developers. The construction funds come from own capital and bank financing, and the financial balance will be achieved through equity transfers and sales revenue in the future. As of 31 March 2025, it had 2 urban renewal projects under construction, with a total planned investment of RMB7.4 billion, and an uninvested amount of RMB4.0 billion. Nevertheless, the Company holds only a 10.0% stake in each project, resulting in relatively limited capital commitment and lower overall funding pressure.

The Company undertakes all sanitation-related business in Sanya City through a government-commissioned operation model. As of 31 March 2025, the Company had undertaken three sanitation projects in Sanya City, covering a cleaning service area of over 40 million square meters.

Low exposure to commercial activities

SUCG's main businesses also include engineering construction, sales of building material products, property leasing and management, landscaping, as well as financing service. we consider the Company's exposure to these businesses to be low, accounting for less than 15% of its total assets.

The Company's engineering construction business primarily operates through its subsidiaries. This segment has become one of the Company's major revenue sources. In 2024, the Company generated construction income of RMB461.4 million, representing 38.4% of its total operating revenue. The business mainly undertakes public construction, civil construction, and road construction projects within Sanya City. As of 31 March 2025, the Company had 21 in-hand projects, with the uncompleted contract amount totaling RMB2.1 billion. Overall, the Company currently holds a relatively sufficient volume of contracts in hand, which can provide strong support for future revenue.

The Company's building material products business involves the production and sale of precast concrete components, lightweight concrete panel components, and commercial concrete. This segment constitutes an important source of revenue for the Company, with the sales generating RMB332.8 million in 2024, accounting for 27.7% of the Company's total operating revenue. Moreover, this business maintains a relatively high gross margin, effectively contributing to the Company's profits. However, its upstream procurement downstream sales are highly concentrated, with the top five suppliers accounting for 76.6% of total procurement and the top five customers representing 56.7% of total sales in 2024.

The Company's leasing business involves the leasing of commercial stores and public rental housing transferred by the local government, with a strong regional exclusivity. The Company is the sole recipient of public rental housing in Sanya City. As of 31 March 2025, the Company had received 13 public rental housing with 13,595 units. The Company's total leasable area reached 771.0 thousand square meters. Most of commercial stores and public rental units have occupancy rates above 80.0%. In 2024, the Company's rental income experienced a slight decline to RMB105.9 million. However, this business maintains relatively high gross margins and strong profitability, providing important supplementary contributions to both operating revenue, profits, and cash flow. Furthermore, as of 31 March 2025, the Company had 3 ongoing construction projects for property leasing, with a total planned investment of RMB524.0 million with an investment progress exceeding 80.0%. The completion of these projects is expected to further expand the scale of the Company's investment properties.

The Company newly engaged in financing services business in 2024. However, the business currently relies on a single client, raising concerns regarding its stability and sustainability. In 2024, it generated revenue of RMB120.0 million from financing services business, with high gross profit margin of 96.0%.

The landscaping business primarily involves flower sales, park maintenance, and greening projects. The Company has its own seedling production base, with approximately 30% of its seedlings self-produced. The Company's suppliers are relatively dispersed. However, the top 5 customers accounted for approximately 83.6% of total sale in 2024, indicating a high customer concentration.

Good track record of receiving support from the local government

As a key urban development entity directly controlled by Sanya SASAC, the Company undertakes major infrastructure construction and public housing projects in Sanya City according to municipal government plans, with both its equity structure and business operations being highly linked to the municipal government. The government also provides substantial support, including capital and asset injections as well as fiscal subsidies. From 2023 to 2025Q1, the Company received government subsidies totaling RMB14.6 million, providing a certain supplement to its total profit. Furthermore, the local government has also injected project capital funds, properties, land assets, and equities to the Company, increasing its capital reserves by RMB29.3 billion as of end-2025Q1. Considering its strategic role in Sanya City, we expect the local government will continue to provide ongoing support to the Company in the future.

Moderate debt leverage

Due to the transfer out of a subsidiary and the repayment of debts, SUCG's debt scale has decreased over the past three years. The Company's adjusted total debt decreased from RMB34.6 billion at end-2023 to RMB29.1 billion at end-2025Q1, with a moderate total capitalization ratio of 47.6%. Nevertheless, the short-term debt only accounted for 5.7% of total debt at the end of 2024, reflecting manageable short-term debt repayment pressure. While its projects pipeline will require external financing and lead to higher debt over the next 12-18 months, the burden is expected to remain manageable with ongoing government funding and disciplined capital management.

Weak asset liquidity

The Company's asset liquidity is weak, which may undermine its financing flexibility. The total assets mainly consist of long-term receivables and other non-current assets, totally accounting for 81.7% of total assets at end-2025Q1. Its long-term receivables primarily consist of receivables from the Sanya Municipal Government, which have caused a certain capital occupation on the Company due to the slow collection progress on these receivables, and the other non-current assets are mainly agricultural land assets injected by the local government. In addition, the Company has a large amount of restricted assets, accounting for 70.1% of total assets at end-2025Q1.

High reliance on bank loans

The Company has a high reliance on bank loans and requires efforts to diversify its funding sources. Around 97.5% of the Company's debt financing was provided by domestic banks as of 31 March 2025. It has certain standby liquidity, with total credit facilities of RMB44.2 billion from domestic banks, and an available amount of RMB5.5 billion. Currently, the Company does not have exposure to bond financing. Besides, the exposure to non-standard financing is low, accounting for around 2.5% of its total debt. Given the Company's large outstanding investment amount on its construction projects, we consider the Company will continue to broaden its financing channels, such as increasing its credit facilities from banks or tapping the debt capital market.

ESG Considerations

SUCG assumes environmental risks through its urban 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.

In terms of social awareness, SUCG has played a crucial role in the social welfare of Sanya city, by involving the construction of public projects.

In terms of corporate governance, SUCG's governance considerations are also material as the Company is subject to local government oversight and 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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