Credit Opinion

14 November 2025

Ratings	
Senior Unsecured Debt Rating	BBB_g+
Long-Term Credit Rating	BBB_g+
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Wenzhou Lucheng District State-owned Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Wenzhou Lucheng District State-owned Holding Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Wenzhou Lucheng District State-owned Holding Group Co., Ltd. ("LSHG" or the "Company") reflects (1) Lucheng District Government's strong capacity to provide support, and (2) the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Lucheng District Government's capacity to support reflects its good comprehensive strength as the central urban area in Wenzhou City, with ongoing economic growth and good fiscal profile.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strategic significance in the development of Lucheng District; (2) good track record of receiving ongoing government support; and (3) diversified funding channels.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities with high capital expenditure pressure; (2) increasing debt burden and weak asset liquidity; and (3) moderate contingent liability risk from external guarantees.

The stable outlook on LSHG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its leading position in the development of Lucheng District over the next 12-18 months.

Rating Drivers

- Strategic significance in the development of Lucheng District
- Medium exposure to commercial activities with high capital expenditure pressure
- Good track record of receiving ongoing government support
- Increasing debt burden and weak asset liquidity
- Diversified financing channels
- Moderate contingent liability risk from external guarantees

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 strengths the local government’s willingness to support, such as decrease in exposure to commercial activities 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

	2022FY	2023FY	2024FY	2025H1
Total Asset (RMB billion)	78.0	95.0	93.5	99.6
Total Equity (RMB billion)	23.6	23.9	26.0	26.0
Total Revenue (RMB billion)	1.4	1.5	1.5	0.6
Total Debt/Total Capital (%)	59.8	66.1	67.4	70.0

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

Source: Company data, CCXAP research

Corporate Profile

Established in 1997 and reorganized in 2020, LSHG is the most important local infrastructure investment and financing company (“LIIFC”) in Lucheng District. The Company primarily focuses on urban development activities including infrastructure construction and resettlement housing development and sales. The Company also engages in commercial activities such as security service, property leasing, and self-operating projects. LSHG is wholly owned and controlled by the State-owned Assets Supervision and Administration Office of Lucheng District Government (“Lucheng District SASAO”).

Exhibit 1. Revenue structure in 2024

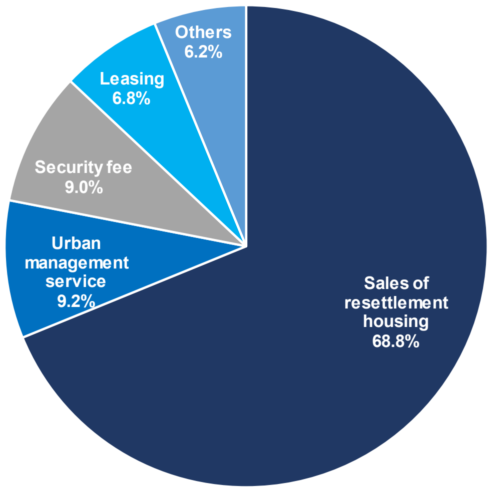
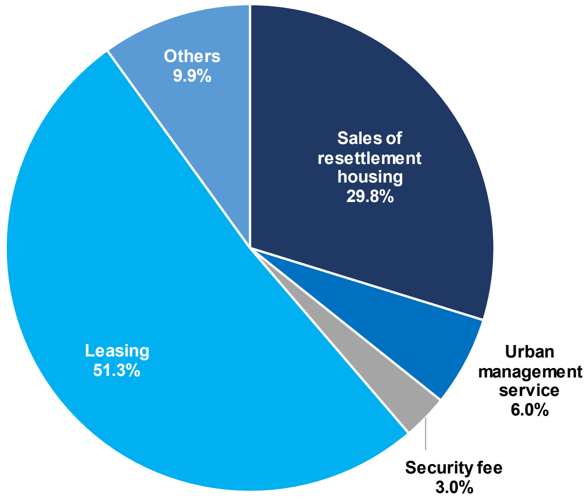


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Support

We believe Lucheng District Government has a strong capacity to provide support given its relatively good comprehensive strength as the central urban area in Wenzhou City, with ongoing economic growth and good fiscal profile.

Zhejiang Province is one of the most economically developed provinces in China, and its comprehensive economic strength and private economy lead in China. In 2024, the gross regional product ("GRP") of Zhejiang Province was RMB9.0 trillion, ranking 4th among all provinces in China, with a year-on-year ("YoY") increase of 5.5%. In the first half of 2025, Zhejiang Province recorded a GRP of RMB4.5 trillion, with a YoY growth of 5.8%. In 2023, its general budgetary revenue reached RMB0.9 trillion, ranking 3rd among all provinces in China.

Located in the southeast of Zhejiang Province, Wenzhou City is one of China's 45 highway main hub cities and one of the country's 25 main hub ports, with convenient transportation and abundant tourism resources. In recent years, Wenzhou City has promoted the development of five pillar industries, including electrical equipment, footwear, apparel, auto parts and pumps. In 2024, Wenzhou City's GRP increased by 6.3% YoY to RMB971.9 billion, ranking 3rd among all prefecture-level cities in Zhejiang Province. In the first half of 2025, Wenzhou City recorded a GRP of RMB483.2 billion, with a YoY growth of 6.0%. Benefiting from the industrial development, the Wenzhou Municipal Government's general budgetary revenue increased from RMB62.3 billion in 2023 to RMB63.3 billion in 2024. However, Wenzhou City's debt profile is modest and its outstanding governmental debt amounted to RMB365.4 billion at the end of 2024, equivalent to 37.6% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Wenzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	803.0	873.1	971.9
GRP Growth (%)	3.7	6.9	6.3
General Budgetary Revenue (RMB billion)	57.4	62.3	63.3
General Budgetary Expenditure (RMB billion)	113.8	117.6	117.8
Local Government Debt (RMB billion)	263.5	307.5	365.4

Source: Statistics Bureau of Wenzhou City, CCXAP research

Lucheng District is one of the four districts of Wenzhou City, with relatively good comprehensive strength. In 2025, it ranked 57th among the top 100 comprehensive strength districts in China. It has two pillar industries, shoe leather manufacturing and equipment manufacturing. It is located in the central urban area of Wenzhou City, which is also the location of the People's Government of Wenzhou City. Its tertiary industry holds a dominant position within the district. In 2024, the GRP of Lucheng District rose by 5.6% YoY to RMB150.8 billion, ranking 2nd among 12 districts/counties in Wenzhou City. In the first half of 2025, Lucheng District recorded a GRP of RMB78.7 billion, with a YoY growth of 4.3%. However, the fiscal allocation mechanism with the municipal government results in a modest scale of retained tax revenue for Lucheng District, leading to a decline in its general public budgetary revenue from RMB3.6 billion in 2023 to RMB3.1 billion in 2024. Nevertheless, Lucheng District has high fiscal stability. For the past three years, its average tax income accounted for 75.4% of general budgetary revenue. However, it has modest fiscal self-sufficiency, with fiscal balance ratio at 43.8%. Lucheng District Government reported outstanding governmental debt of RMB40.8 billion at end-2024, representing 27.1% of GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Lucheng District

	2022FY	2023FY	2024FY
GRP (RMB billion)	130.8	140.1	150.8
GRP Growth (%)	2.0	5.3	5.6
General Budgetary Revenue (RMB billion)	4.7	3.6	3.1
General Budgetary Expenditure (RMB billion)	8.5	8.9	8.9
Local Government Debt (RMB billion)	26.2	35.3	40.8

Source: Statistics Bureau of Lucheng District, CCXAP research

Government Willingness to Support

Strategic significance in the development of Lucheng District

As the largest LIIFC by total assets and the principal entity for urban development and state-owned asset operations in Lucheng District, LSHG focuses on infrastructure construction, resettlement housing projects, as well as land development and consolidation across the region. The Company has successfully delivered a substantial number of projects in these areas, contributing significantly to the region's urbanization. Considering its strategic significance to the development of Lucheng District, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Under the agent construction model, LSHG builds urban infrastructure including roads, bridges and public service facilities for the Lucheng District Government. The Company has carried out a number of infrastructure construction projects in Lucheng District. As of 30 June 2025, the Company had 14 infrastructure construction projects under construction, with a total planned investment of around RMB11.9 billion and an uninvested amount of around RMB9.0 billion, indicating high capital expenditure pressure. Additionally, due to slow progress in project settlement, a substantial number of completed projects remain unsettled, creating uncertainty around future payments. This has led to a continued decline in the Company's agent construction revenue, which totaled RMB5.0 million from 2022 to 2023 and no revenue in 2024 to the first half of 2025. As of 30 June 2025, unsettled infrastructure construction costs retained in the Company's inventory amounted to approximately RMB13.9 billion.

Entrusted by the local government, the Company develops resettlement housing using self-raised funds, selling units to designated relocates at government-guided prices. Its operations follow three models: self-building, purchasing commercial housing, or fund-raising. As of 30 June 2025, the Company had 7 resettlement housing projects under construction, with a total planned investment of around RMB10.2 billion and uninvested amount of around RMB4.7 billion. There were also 2 proposed resettlement housing projects, with a combined planned investment of RMB479.0 million. Besides, the Company purchased 12 resettlement housing projects in 2020 for a total consideration of RMB15.3 billion, planning to sell or lease them at market prices. As of 30 June 2025, portions of these projects had been completed and transferred to the Company, with a recorded value of RMB14.7 billion. For the fundraising of resettlement housing model, the Urban Village Construction Center appoints the Company as the service provider for resettlement housing through government procurement procedures. Under this model, the Company acquires resettlement-oriented commercial housing and allocates it to relocated households through market-based sourcing mechanisms. Lucheng District has a six-phase resettlement program which aims to resettle 14,127 households with 3.5 million sqm of housing. The total investment for this project is estimated at RMB48.3 billion. It will be co-funded by the district government and the Company, with the government contributing RMB28.9 billion and the Company self-raising the remaining funds, under a four-year implementation schedule. As of 30 June 2025, the Company had paid RMB20.9 billion for the acquisition of resettlement housing, with an additional RMB7.5 billion funded by fiscal funds.

LSHG undertakes land development through a subsidiary, raising funds for land consolidation before the government transfers the completed land. However, it is currently engaged in discussions with local authorities to restructure the business model. Besides, due to the pending finalization of the settlement mechanism, no land development revenue was recognized from 2024 to the first half of 2025. As of 30 June 2025, the Company had completed 6 land development projects, with a total investment of RMB1.1 billion and a consolidated land area of approximately 909.2 thousand square meters. As of 30 June 2025, the Company’s inventory had recorded unsettled land consolidation costs amounted to RMB2.1 billion. However, the Company currently has no ongoing or planned land consolidation projects. In addition, its land transfer income is subject to uncertainties due to regional land and real estate market conditions and policy adjustments.

Medium exposure to commercial activities with high capital expenditure pressure

LSHG's commercial businesses mainly include security services, property leasing, and self-operating projects. We consider the Company’s exposure to commercial businesses to be medium, accounting for around 15% of its total assets. However, the self-operated projects under construction have exert high capital expenditure pressure to the Company.

The security service business is primarily operated by LSHG's subsidiary. As of 30 June 2025, the Company employed over 2,100 security personnel, including 1,488 dispatched through labor outsourcing. The main services include security guard services, cash escort, security inspections, and engineering and technical services related to security technology and prevention. Security service revenue declined from RMB223.3 million in 2023 to RMB134.7 million in 2024, mainly due to the divestment of the auxiliary police dispatch business for Lucheng Public Security Bureau.

LSHG's property leasing business is a major contributor to gross profit. Its leasable assets include office buildings, apartments, warehouses, and commercial properties that are either self-constructed or transferred by the government. Driven by an increase in leasable assets, rental income rose significantly from RMB69.8 million in 2023 to RMB102.0 million in 2024. In 2024, the business generated a gross profit of RMB 67.1 million, with a high gross margin of 65.8%, accounting for more than half of the Company’s total gross profit.

Additionally, the Company is also involved in self-operated project construction, including parking lots and industrial parks. As of 30 June 2025, the Company had 5 self-operated projects under construction with a total planned investment of RMB31.3 billion, of which RMB16.8 billion was uninvested. The Company plans to achieve financial balance through future revenues from project management, leasing, property services, and parking facilities. It also had 1 self-operated project under planning, with a total planned investment of RMB6.7 billion, indicating high capital expenditure pressure. Moreover, the future operating performance of these projects remains uncertain, particularly with respect to revenue generation.

The urban management services are mainly operated through LSHG's subsidiary. In 2020, the Company entered into a contract with the local government to undertake sanitation and cleaning projects across 8 major streets and historical cultural areas in Lucheng District. The service contract expired at the end of June 2024. In 2024, the Company recorded revenue of RMB138.9 million from urban management services. The business has since ceased operations, but the Company remains eligible to participate in future tenders should new opportunities arise.

Good track record of receiving ongoing government support

As the primary state-owned asset investment and operation entity in Lucheng District, LSHG has a proven record of receiving support from Lucheng District government through capital injections, asset transfers, and operating subsidies. From end-2023 to mid-2025, the Company's paid-in capital grew by a total of RMB2.0 billion, while its capital reserve increased by RMB4.7 billion. This expansion in capital reserve was primarily attributable to transferred funds from completed projects and receipt of government-injected assets. The Company received government subsidies of RMB123.4 million to support its operation during the same period. Given its important position in the development of Lucheng District, we believe that the Lucheng District Government will continue to provide support to the Company.

Increasing debt burden and weak asset liquidity

LSHG’s total debt has grown rapidly in response to rising financing needs for its construction projects. The Company’s total debt increased from RMB45.2 billion at end-2023 to RMB58.5 billion as of mid-2025, resulting in a high capitalization ratio of 70.0%. However, the Company has a certain amount of short-term debt, with its cash reserves insufficient for full coverage. As of 30 June 2025, the short-term debt accounted for approximately 13.2% of total debt and the cash to short-term debt ratio declined from 0.3x at end-2023 to 0.2x, indicating a weakened coverage level for short-term obligations. Given the ongoing pipeline of infrastructure, self-operated, and resettlement housing projects, the Company is expected to continue relying on external financing to meet its capital expenditure requirements. Consequently, we expect that its debt burden will continue to grow in the next 12 to 18 months.

LSHG’s asset liquidity is weak, which may constrain its financial flexibility. The Company’s assets mainly consist of inventories and prepaid expenses, all with low liquidity. Inventories are mainly composed of development costs from construction and resettlement housing projects, while prepaid expenses primarily associated with resettlement housing, totally accounting for about 71.2% of total asset as of 30 June 2025. Nevertheless, revenue from the sale of resettlement housing is the Company's primary source of income, with related assets accounting for 57.5% of the total.

Diversified financing channels

LSHG has good access to funding from banks and bond market. The Company has established long-term borrowing relationships with state-owned commercial banks and joint-stock commercial banks in China, including Bank of China Limited, China CITIC Bank Corporation Limited, and Bank of Hangzhou Co., Ltd. The Company has sufficient stand-by liquidity. As of 31 August 2025, the Company had obtained total credit facilities of RMB67.6 billion, with available amount of RMB17.4 billion. In terms of direct financing, the Company and its subsidiary continue to have good access to onshore and offshore bond market. From January 2024 to September 2025, the Company issued 1 offshore bond totaling RMB1.9 billion, with a financing cost of 3.9%. During the same period, its subsidiary, Wenzhou Lucheng District Urban Development Group Co., Ltd., issued 2 onshore bonds with a total value of RMB2.5 billion. The Company has moderate reliance on non-standard financing, accounting for around 14.0% to total debt as of 31 August 2025.

Moderate contingent liability risk from external guarantees

The Company is exposed to a moderate contingent liability risk. As of 30 June 2025, the Company recorded an external guarantee amount of RMB13.9 billion, accounting for 53.6% of its total equity. Those guaranteed entities are state-owned enterprises ("SOE") in Lucheng District. The credit risk of the Company and other local SOEs might be heightened if one of the guaranteed entities suffers from credit issues.

ESG Considerations

LSHG 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, LSHG has played a crucial role in the social welfare of Lucheng District by involving the construction of public projects and resettlement housing projects in Lucheng District.

In terms of corporate governance, LSHG'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.

Structural Consideration

LSHG's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic position in the development of Lucheng District, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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