

Credit Opinion

10 December 2025

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

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Weifang Guokong Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Weifang Guokong Development Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Weifang Guokong Development Group Co., Ltd. ("WFGK" or the "Company") reflects Weifang Municipal Government's (1) very strong capacity and (2) high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to support reflects Weifang City's status as the fourth largest city in Shandong Province by gross regional product ("GRP") and general budgetary revenue, with good economic and industrial development. However, Hanting District's economic and financial strength is relatively weak, with a high regional debt pressure.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) essential role in public utilities of Hanting District and Weifang Economic Development Zone ("Weifang EDZ"); and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) rapid debt growth with short-term debt pressure; (2) limited financial flexibility driven by weak asset liquidity, high recovery risk and tight liquidity position; and (3) high external guarantee risk, with exposure to financially distressed enterprises.

The stable outlook on WFGK's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important position in regional development and public welfare of Weifang City over the next 12-18 months.

Rating Drivers

- Essential role in public utilities of Hanting District and Weifang EDZ
- Good track record of receiving government support
- Moderate exposure to commercial activities
- Rapid debt growth with short-term debt pressure
- Limited financial flexibility driven by weak asset liquidity, high recovery risk and tight liquidity position
- Moderate funding capacity
- High external guarantee risk with exposure to financially distressed enterprises

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increased strategic significance, improved debt management, or lower exposure to contingent liability risk.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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, deteriorated debt management, or weakened funding ability.

Key Indicators

	2022FY	2023FY	2024FY	2025H1
Total Assets (RMB billion)	47.3	47.0	61.8	38.9
Total Equity (RMB billion)	36.1	36.5	45.8	23.0
Total Revenue (RMB billion)	2.2	2.1	1.2	0.7
Total Debt/Total Capital (%)	13.2	13.8	16.5	34.7

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2007, WFGK is a local state-owned enterprise ("SOE") mainly operating in Weifang City, a prefecture-level city in Shandong Province. As part of the SOE reform, the local government transferred 100% equity stakes of Weifang Guochuang Development Group Co., Ltd. ("WFGC") and Weifang Guojin Industrial Development Co., Ltd. ("WFGJ") to the Company without compensation in 2024. In the first quarter of 2025, the equity of its subsidiary, Weifang Futing Investment Co., Ltd. ("WFFT"), was transferred out of the Company. Following these equity transfers, WFGK's position changed from infrastructure construction to public utility operation in Weifang City.

The Company primarily focuses on heat and gas supply as well as public utility-related construction. It also participates in other commercial activities, including commodities trading, provision of guarantee services, as well as property development and leasing. Its businesses cover mainly in Hanting District and Weifang EDZ. As of 30 June 2025, the State-owned Assets Supervision and Administration Commission of Weifang Municipal

Government (“Weifang SASAC”) was the ultimate controller of WFGK and directly held 51.0% of the Company’s shares.

Exhibit 1. Shareholding chart as of 30 June 2025



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024

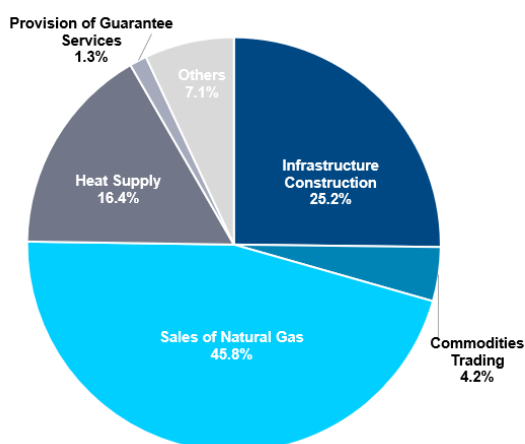
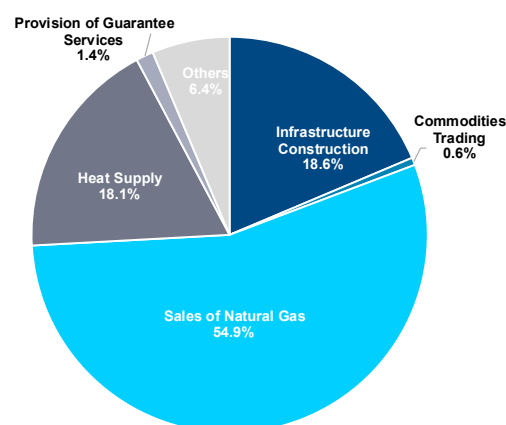


Exhibit 3. Revenue structure in 2025H1



Source: Company information, CCXAP research

Rating Considerations

Government’s Capacity to Provide Support

We believe Weifang Municipal Government has a very strong capacity to provide support given its status as the fourth largest city in Shandong Province by GRP and general budgetary revenue, with good economic and industrial development, but relatively tight regional refinancing pressure. Moreover, Hanting District's economic and financial strength is relatively weak, with a high regional debt pressure.

Shandong Province is the third largest province in terms of GRP in China over the past three years, with a solid industrial foundation in logistics, shipbuilding, and marine technology, chemical, automotive and agri-food. In 2024, Shandong Province reported a GRP of RMB9.9 trillion, representing a year-over-year (“YoY”) increase of 5.7%. At the same time, its general budgetary revenue increased to RMB771.2 billion from RMB746.5 billion in 2023. In the first three quarters of 2025, Shandong Province's GDP reached RMB7.7 trillion, with an YoY increase of 5.6%.

Weifang City is located in the east-central part of Shandong Province and is an important regional economic center of central Shandong. After years of development, Weifang City has established a series of traditional advantageous industries, including power equipment, high-end chemicals, food processing, automobile

manufacturing, textiles and clothing, as well as intelligent agricultural machinery. Meanwhile, Weifang City also actively cultivates emerging industries such as new generation information technology, industrial machine tools, and magnetic levitation. In 2024, Weifang City reported a GRP of RMB820.3 billion, increased by 5.9% YoY, ranking 4th among prefecture-level cities in Shandong Province. In the first three quarters of 2025, Weifang City achieved a GRP of RMB619.0 billion. In addition, Weifang City has a strong fiscal base. Its general budgetary revenue increased to RMB62.0 billion in 2024 from RMB60.8 billion in 2023, ranking 4th among prefecture-level cities in Shandong Province. Tax revenue accounted for 62.5% of its general budgetary revenue on average over the past three years. Weifang City also has a healthy fiscal balance as seen by an average fiscal balance ratio (general budgetary revenue/ general budgetary expenditure) of 69.8% over the past three years.

However, Weifang City's government debt level is high, with an outstanding amount of RMB285.4 billion as of 31 December 2024, which accounted for 34.8% of its GRP. The enlarged local government debt level, together with rapidly increasing local SOE debts at county level, has made Weifang City experience a tight financing environment and heightened the funding costs for local SOEs since 2021. Recently, Weifang City was benefited by the strong policy support from its higher-tier government to resolve local debt risks via a package of debt-relief measures at the national level. For example, Weifang Municipal Government has obtained special refinancing fund of RMB19.6 billion in 2023, representing 70% of Shandong Province's quota for the year, and continued to receive special refinancing fund of RMB16.8 billion in 2024. While the short-term liquidity risk in Weifang City has been eased, it is still necessary for Weifang City to conduct sustained debt management and debt-relief measures to achieve sound development of local financing in the medium to long term.

Exhibit 4. Key economic and fiscal indicators of Weifang City

	2022FY	2023FY	2024FY
GRP (RMB billion)	730.6	760.6	820.3
GRP Growth (%)	3.7	5.1	5.9
General Budgetary Revenue (RMB billion)	60.8	60.8	62.0
General Budgetary Expenditure (RMB billion)	84.2	88.9	90.2
Local Government Debt (RMB billion)	191.0	235.9	285.4

Source: Weifang Municipal Government, CCXAP research

Hanting District is one of the four administrative districts of Weifang City, which has jurisdiction over Weifang Economic Development Zone and Yangjiabu Tourism Development Zone. In 2024, Hanting District's GRP increased by 6.1% YoY to RMB29.9 billion, and its general budgetary revenue increased to RMB2.2 billion from RMB2.1 billion in 2023. In the first half of 2025, Hanting District's GRP increased by 5.8% YoY to RMB14.8 billion. However, Hanting District's economic and financial strength remains relatively weak. Moreover, Hanting District bears relatively high regional debt pressure. As of 31 December 2024, the outstanding government debt of Hanting District was RMB17.9 billion, accounting for 59.9% of GRP. Weifang EDZ is a provincial economic development zone in Shandong Province and plays as an important node for Weifang City's northward development.

Government's Willingness to Provide Support

Essential role in public utilities of Hanting District and Weifang EDZ

After the state-owned asset consolidation, WFGK is mainly engaged in natural gas sales and heat supply businesses in Hanting District and Weifang EDZ, which are beneficial to the local social and economic development and possess significant strategic importance for the urban development of Weifang City. Given its clear strategic role in supporting regional development, the Company is also entrusted by the enterprises in the

region to engage in heating and gas pipeline networks construction. We believe that the Company is unlikely to be replaced in the foreseeable term, given its high replacement cost as these public services are vital to urban development.

The Company's natural gas sales business, its core sector, supplies gas to businesses and residents, covering areas outside the main urban area of Hanting District and parts of the Weifang EDZ. The Company purchases natural gas from upstream suppliers, whose purchase prices fluctuate with market conditions, and supplies it to downstream customers through its gas pipeline network. The sales prices are subject to government pricing or government-guided pricing. As of the end of June 2025, the Company had gas pipeline network of 674.0 kilometers, providing more than 100 units and communities and serving a total of more than 22,000 households.

In addition, the Company provides heat supply services, with coverage mainly in Hanting District, Weifang EDZ, and the northern part of Kuiwen District. The Company sources heat primarily from upstream suppliers, principally high-temperature water, and supplies it to downstream businesses and residential customers through heat-source pipelines, with residential users as the primary customer base. Both the purchase and sales prices are subject to government regulation. As of the end of June 2025, the Company owned 229 heat exchange stations, with a heating area of nearly 21.6 million square meters, covering more than 500 units and residential communities.

Overall, the public utility services are essential for urbanization development and social welfare, which have lower cyclical risks. As of 30 June 2025, the Company had 3 self-operated public utility projects under construction, with an estimated total investment of RMB7.9 billion and an outstanding amount of RMB6.1 billion, exerting relatively high capital expenditure pressure to the Company. These projects are essential to local economic development and provide benefits to the public. With the completion of the projects, we expect the Company's public business sustainability would further strengthen due to improved capacity and increased pipeline network.

Moreover, WFGK also engages in construction of public utilities and urban renewal projects through agency construction model. Under the agent construction model, the Company entered into an agent construction agreement with the entrusting party, primarily local SOEs in Hanting District and Weifang EDZ. According to the agreement, the Company is responsible for constructing, with funding either self-raised or supported by government special funds or advance payments from the entrusting party, and would receive the construction costs plus a markup (generally 8%) based on construction progress. As of 30 June 2025, WFGK had 6 projects under construction with a total investment of RMB7.7 billion and an uninvested amount of RMB4.6 billion, bringing capital expenditure pressure to the Company. At the same time, the Company received payment of RMB724.0 million regarding to these projects under construction. However, some of the entrusting parties had overdue on commercial bills, exerting certainties on future payment collection.

Moderate exposure to commercial activities

Apart from public services, WFGK also participates in commercial activities such as commodities trading, provision of guarantee services, as well as property development and leasing, forming a relatively diversified business portfolio. We consider WFGK's commercial business exposure to be moderate, as the assets in commercial activities accounted for around 20%-30% of the total assets as of 30 June 2025. We believe that the Company could increase revenue streams and mitigate business risks through the diversification of its business scope, which would have a positive impact on its credit profile. However, certain business segments, such as guarantee services and property development, may involve additional operational and financial risks.

WFGK engages in commodities trading business. In 2024, the Company's trading products changed from steel products to agricultural products, following the transfer-in of WFGC, and adopted the net settlement method, resulting in a significant increase in gross profit margin. In 2024, this business segment achieved RMB50.0 million in revenue, up by 85.2% YoY, with a gross profit margin of 77.8%. However, the Company faced high concentration of both upstream suppliers and downstream customers. In 2024, the procurement from the top five suppliers accounted for 84.8% of the total procurement, and the sales from the top five customers accounted for 77.8% of the total sales.

The Company conducts guarantee business through its subsidiary Weifang Guoke Financing Guarantee Co., Ltd. ("GKFG"), which was transferred by the local government in 2022. GKFG provides loan guarantees for micro and small-scale enterprises, agricultural entities, entities in rural areas, and farmers in Weifang City, and most guarantees have no collateral. As of 30 June 2025, GKFG had an outstanding external guarantee of RMB2.1 billion, accounting for 9.3% of WFGK's net assets. Most of them (82.3%) are within one year and the guaranteed companies are mainly private-owned enterprises in Weifang City. Meanwhile, the compensation rate of GKFG's guarantee business was moderate at approximately 0.8%. As at mid-2025, GKFG had provided compensation with accumulative amount of RMB20.8 million. GKFG has discussed subsequent recovery measures with the guarantees and has initiated the recovery procedures. In addition, the Company takes part in on-lending business. As of the end of June 2025, the Company had a total of 10 relending transactions, with a balance of RMB880.0 million and no non-performing asset.

Moreover, the Company engages in property development and leasing through a self-operated model, mainly industrial parks, aiming to promote regional development in Weifang City and Hanting District. Under the self-operation model, WFGK is responsible for financing and constructing self-operated projects and achieves fund balancing through leasing and sales. As of 30 June 2025, the Company had completed one industrial park project, namely Phase I of the Weifang Jiejing High-end Intelligent Manufacturing Innovation Platform. This project primarily consists of industrial factory construction, with a total investment of RMB36.7 million and recognized total revenue of RMB39.7 million. In the future, revenue from property leasing is expected to grow with the completion of self-operated projects under construction, bringing additional revenue to the Company. The Company had 4 self-operated projects under construction, with a total investment amount of RMB11.6 billion and an uninvested amount of RMB9.2 billion. Among them, one project started pre-sales, realized sales revenue of RMB40.0 million with a selling rate of around 35.3%. However, the capital balance of these self-operated projects will also be largely affected by the subsequent leasing and sales progress of these projects, and the investment return cycle is expected to be long.

Good track record of receiving government support

WFGK has a good track record of receiving government support from the local government, including capital injections, equity transfers, and financial subsidies, which could help the Company meet its policy objectives and financial obligations. Since December 2022, the local government has transferred the shares of other local SOEs to WFGK to enlarge the Company's asset scale and capital strength. In 2024, the local government also continued to inject equities of some SOEs into the Company, including WFGC and WFGJ. Meanwhile, Weifang SASAC provided a cash injection to the Company in 2024, increasing its paid-in capital by RMB15.0 million. From 2024 to 2025H1, WFGK continued to receive operational subsidies totaling RMB8.2 million to support its operations. Considering WFGK's important regional role in the development and public welfare of Weifang City and Hanting District, we expect that the Company would continue to receive government support over the next 12 to 18 months.

Rapid debt growth with short-term debt pressure

WFGK's total debt continued to increase rapidly over the past years. As of 30 June 2025, the Company's total debt increased notably to RMB12.2 billion from RMB5.9 billion as at end-2023. Meanwhile, the total capitalization ratio, calculated by total debt to total capital, increased from 13.8% to 34.7% over the same period. The Company's heightened debt leverage is mainly due to the combined effect of increasing debt level and the transfer out of its shareholding of WFFT in 2025Q1, which resulted in a corresponding decrease in its capital reserve. At the same time, the Company faced short-term debt pressure, as its short-term debt accounted for 42.7% of its total debt at mid-2025, and the cash to short-term debt ratio was low at 0.1x. Considering the Company's funding needs for its ongoing construction projects, we estimate that the Company will rely on external financing to meet its capital expenditures, and its total debt will continue to grow in the next 12 to 18 months.

Limited financial flexibility driven by weak asset liquidity, high recovery risk, and tight liquidity position

WFGK's asset liquidity remains weak, which adversely affects its financial flexibility. Its assets are mainly long-term equity interests in other local SOEs transferred by the government, which are considered illiquid and non-realizable, undermining its financial flexibility. The long-term equity investment, other equity instruments, construction in progress and inventory accounted for around 68.1% of its total assets as of 30 June 2025. The long-term equity investment and other equity instruments consist mainly of shares in local SOEs with limited income; inventories are mostly development costs for pipeline construction projects; construction in progress consists primarily of development costs for public utility construction and industrial park projects. At the same time, the Company's restricted assets amounted to RMB3.6 billion, accounting for 9.3% of total assets, which could undermine its financial flexibility.

Moreover, the Company also bears a high recovery risk for its accounts receivable. As of 30 June 2025, the outstanding amount of receivables to Weifang Bincheng Investment Development Co., Ltd. ("BCID") totaled at RMB154.3 million. However, BCID has been listed as a dishonest debtor and defaulted on non-standard financing products. Moreover, BCID had outstanding overdue payment of RMB176.2 million on commercial bills as of 31 October 2025.

In addition, the Company and its subsidiaries have been facing liquidity challenges due to rising debt levels and a tightening financing environment. For instance, the Company's subsidiaries, Weifang Lihui New Energy Technology Co., Ltd. ("WFLH") and Weifang Energy Group Co., Ltd. ("Weifang Energy"), had outstanding overdue payments of RMB137.1 million and RMB17.0 million, respectively, for commercial bills as of 31 October 2025.

Moderate funding capacity

The Company's financial burden could be partially mitigated by its access to multiple funding channels, including bank loans, offshore bond financing, and non-standard financing. The major funding channel for the Company is bank loan, which accounted for more than half of its total debt at mid-2025. The Company has built a close relationship with large domestic banks, such as China Development Bank and Agricultural Development Bank of China. As of 30 June 2025, the Company (excluding WFGC and WFGJ) had obtained total credit facilities of RMB8.3 billion, with an unutilized amount of RMB5.5 billion. The Company's financing needs may be partially released by its sufficient bank facilities. In addition, the Company had access to the offshore bond market since 2025. The Company issued several tranches of offshore bonds in January 2025 and March 2025, raising around USD205.0 million and RMB1.3 billion respectively. Moreover, the Company obtained lending from local SOEs

in Hanting District, such as BCID. As of 30 June 2025, the outstanding lending amount from BCID was around RMB849.9 million, accounting for around 6.8% of total debt. The Company's exposure to non-standard financing products maintains manageable, accounted for less than 5.0% of its total debt. However, these are mainly financial leases, which typically carry higher funding costs.

High external guarantee risk, with exposure to financially distressed enterprises

The credit profile of WFGK is constrained by its guarantees to local SOEs and private-owned enterprises. Although the scale of external guarantees is moderate, some guarantees are in tight liquid and financial difficulty. Moreover, most of guarantees of guarantee business are private-owned enterprises, which could cause higher contingent liability risk.

In addition, the Company also provides external guarantees to local SOEs. As of 30 June 2025, the total amount of external guarantees to local SOEs was RMB5.8 billion, which accounted for 25.0% of its net assets. The external guarantees are concentrated in Weifang City, which will bring more risks to the Company in case of credit event occurs. Apart from that, the Company's subsidiaries have been listed as judgment debtors due to its external guarantees to BCID. We consider WFGK has relatively large contingent liability risk due to external guarantees to local SOEs and private-owned enterprises.

ESG Considerations

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

WFGK bears social risks as it implements public policy initiatives by undertaking infrastructure construction in Weifang City. 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.

WFGK's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, 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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