

Credit Opinion

18 September 2025

Ratings

Guaranteed Debt Rating	A _g ⁺
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Linzhou City Investment Holdings Co., Ltd.

Surveillance credit rating report

CCXAP affirms Linzhou City Investment Holdings Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Linzhou City Investment Holdings Co., Ltd. ("LZIH" or the "Company") reflects Linzhou City Government's (1) 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 Linzhou City Government's capacity to support reflects Linzhou City's status as the largest county or district by gross regional product ("GRP") in Anyang City for years, with growing economy, but constrained by moderate fiscal metrics.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) dominant role in local shantytown renovation and infrastructure construction; (2) good track record of receiving government support; and (3) good access to funding channels.

However, the rating is constrained by the Company's (1) medium and increasing exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) moderate level of contingent risk.

The stable outlook on LZIH's rating reflects our expectation that the Linzhou City Government's capacity to provide support will be stable, and the Company's characteristics such as its importance in social and economic development of Linzhou City will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Dominant role in local shantytown renovation and infrastructure construction
- Good track record of receiving government support
- Medium and increasing exposure to commercial activities
- Increasing debt burden and moderate asset liquidity
- Good access to funding channels
- Moderate level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Linzhou City 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 improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Linzhou City Government's capacity to 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 regional significance or materially increased exposure to risky commercial activities.

Key Indicators

	2022FY	2023FY	2024FY	2025H1
Total Assets (RMB billion)	29.1	32.0	34.1	34.2
Total Equity (RMB billion)	14.9	15.5	15.7	15.5
Total Revenue (RMB billion)	5.8	4.4	3.2	1.5
Total Debt/Total Capital (%)	44.6	45.2	50.0	51.2

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

Source: Company data, CCXAP research

Corporate Profile

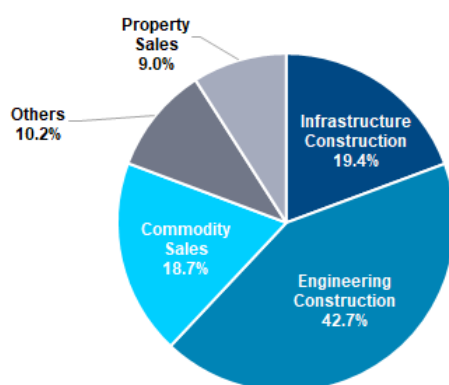
Established in December 2016, LZIH is the most important local infrastructure investment and financing company ("LIIFC") in Linzhou City, responsible for infrastructure construction and water services in Linzhou City. The Company has also diversified into other commercial business, including property sales, engineering construction, and commodity sales. As of 30 June 2025, the Company is directly owned and ultimately controlled by the Finance Bureau of Linzhou City.

Exhibit 1. Shareholding chart as of 30 June 2025



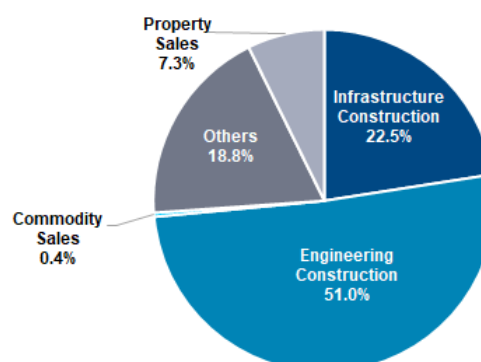
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2024



Rating Considerations

Government's Capacity to Provide Support

We believe that the Linzhou City Government has a strong capacity to provide support, reflecting Linzhou City's status as the largest county or district by GRP in Anyang City for years with growing economic, but constrained by its moderate fiscal metrics.

Henan Province is one of the most developed provinces in China. It is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's GRP ranked 6th among all provinces in China in 2024 with a GRP of RMB6.4 trillion and growth rate of 5.5% year-on-year ("YoY"). Meanwhile, it had recorded a general budgetary revenue of RMB439.9 billion in 2024. In the first half of 2025, Henan Province recorded a GRP of RMB3.2 trillion, representing a 5.7% YoY increase.

Located in the north of Henan Province, Anyang City is the regional central city in the border area of Henan, Shaanxi and Hebei Provinces. Anyang City has four pillar industries, namely new energy vehicles and parts, fine steel and deep processing, high-end equipment manufacturing, as well as cultural tourism industries. In 2024, it reported a GRP of RMB267.2 billion, representing a YoY growth rate of 4.6%. Moreover, in the first half of 2025, Anyang City achieved a GRP of RMB131.9 billion, indicating a YoY increase of 6.3%. Meanwhile, the Anyang Municipal Government's general budgetary revenue steadily grew to RMB24.1 billion in 2024 from RMB22.2 billion in 2022, of which tax income each year accounted for over 60%, indicating a relatively good

fiscal quality. However, the Anyang Municipal Government has moderate fiscal balance ratio (general budgetary revenue/general budgetary expenditure), averaging 52.6% over the past three years, indicating its relatively high reliance on fiscal support from higher-tier government. Meanwhile, Anyang Municipal Government had relatively heavy debt burden. As of end-2024, its government debt balance increased to RMB81.8 billion from RMB71.3 billion by the end of 2023, accounting for 30.6% of GRP.

Exhibit 4. Key economic and fiscal indicators of Anyang City

	2022FY	2023FY	2024FY
GRP (RMB billion)	251.2	248.6	267.2
GRP Growth (%)	2.4	3.2	4.6
General Budgetary Revenue (RMB billion)	22.2	23.6	24.1
General Budgetary Expenditure (RMB billion)	42.8	44.7	45.1
Local Government Debt (RMB billion)	62.2	71.3	81.8

Source: Anyang Municipal Government, CCXAP research

Linzhou City is located in the northwest region of Henan Province, which is the county-level city under the jurisdiction of Anyang City and the birthplace of The Red Flag Canal spirit. Linzhou City comprises sixteen towns, one national-level economic and technological development zone, and one provincial-level industrial agglomeration zone. After years of development, Linzhou City has formed three pillar industries, including manufacturing, construction and cultural tourism. Linzhou City demonstrated ongoing economic growth over the past three years. Linzhou City's GRP ranked first among all the districts or counties in Anyang City for the past few years. It recorded a GRP of RMB72.7 billion in 2024, representing a YoY growth rate of 6.7%. In 2024, its general budgetary revenue grew to RMB5.5 billion, of which tax revenue accounted for 65.6%, indicating a relatively good fiscal quality. Meanwhile, Linzhou City maintained a moderate fiscal balance with an average fiscal balance ratio of over 65% for the past three years. As of 31 December 2024, the outstanding debt of Linzhou City Government amounted to RMB10.8 billion, accounting for 14.8% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Linzhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	65.7	65.1	72.7
GRP Growth (%)	4.8	3.4	6.7
General Budgetary Revenue (RMB billion)	4.4	5.0	5.5
General Budgetary Expenditure (RMB billion)	6.8	7.3	8.1
Local Government Debt (RMB billion)	8.2	9.0	10.8

Source: Linzhou City Government, CCXAP research

Government's Willingness to Provide Support

Dominant role in local shantytown renovation and infrastructure construction

As the largest LIIFC in Linzhou City in terms of total assets, LZIH is the most important LIIFC in Linzhou City with a dominant role in local shantytown renovation and infrastructure construction. It also carries out essential public services in Linzhou City, except for the Hongqiqu Economic and Technological Development Zone, such as water supply, sewage treatment, and provision of public transportation. We believe that the replacement cost for the Company's role is high as these public services are essential for local residents and regional development.

As the main developer in Linzhou City, LZIH has high sustainability in undertaking shantytown renovation and infrastructure construction projects in the region. The Company mainly undertakes projects through agency construction model, government purchase model and PPP model. The Company transfers the project ownership to the entrusting parties after the project is completed and examined, and will receive payments based on the total cost plus a certain markup in return. As of 30 June 2024, the PPP projects, namely the public service center construction and river improvement projects, have been completed, and there is no subsequent PPP project under construction or planning. For projects under agency construction and government purchase model, as of 31 March 2025, the Company had 3 projects under construction, mainly including shantytown renovation and river regulation project, with a total investment amount of RMB4.7 billion and an uninvested amount of RMB2.6 billion. The relatively large number of projects under construction and planning could ensure the sustainability of LZIH's infrastructure construction business, yet also bring certain capital expenditure pressure to the Company.

LZIH also undertakes the responsibility of providing essential public services in Linzhou City, including water supply, sewage treatment, and bus operation. The Company is responsible for the water supply of Linzhou City and the domestic sewage treatment in the urban area of Linzhou City. As of 31 March 2025, LZIH owned and operated 3 water supply plants with a daily water supply capacity of 220,000 cubic meters, and water supply pipeline network with a total length of 319.2 kilometers, serving a population of around 370,000. The water prices in Linzhou City are set under government guidance. Moreover, the Company is responsible for sewage treatment service via one sewage treatment plant with daily sewage treatment capacity of 50,000 cubic meters, and sewage pipe network of 157 kilometers, covering an area of 27 square kilometers. The Company also engages in public transportation service in Linzhou City and is the only entity operating public transportation business in Linzhou City. LZIH owned 150 buses covering 28 routes in Linzhou City. Overall, we believe that the replacement cost for the Company's role is high as these public services are essential for the region.

Good track record of receiving government support

LZIH has a good track record of receiving support from the local government in the form of asset injections, capital injections, and operating subsidies to support its investments and the operation of its businesses. Since its establishment, the local government injected assets and equity shares of other state-owned enterprises in Linzhou City, which increased the Company's capital reserve significantly from RMB8.1 billion at end-2021 to RMB13.2 billion as of 30 June 2025. In 2023, the Company received cash injection from the local government, increasing its paid-in capital from RMB284.7 million as of end-2022 to RMB600.0 million as of end-2023. Moreover, the government injected RMB427.7 million of cash into the Company's capital reserves in 2024, further enhancing its capital strength. In addition, LZIH also has a track record of receiving government payments. In terms of operating subsidies, the Company had received government subsidies totaling RMB93.5 million from 2023 to 2024, supporting its daily operation. Considering its strategic role in social and economic development of Linzhou City, we expect the local government will continue to provide support to the Company.

Medium and increasing exposure to commercial activities

In addition to public activities, LZIH participates in various commercial activities such property sales, commodity sales and engineering construction. We consider the Company's exposure to commercial businesses to be medium, as its commercial assets accounted for around 25.0% of its total assets as of 30 June 2025. However, considering the Company's ongoing investment in the property development and self-operated projects, we expect its exposure to commercial activities would increase in the future.

LZIH engages in property sales business through its subsidiaries. The Company developed the properties independently or cooperatively with other local property developers in Linzhou City. As of 31 March 2025, the Company had 5 completed commodity housing projects, with a total investment of RMB1.9 billion. The Company had received RMB1.9 billion of sales paybacks as of the same date, and the sales absorption rate was around 72.3%. There was 1 commercial residential housing under construction as of the same date, with a total invested amount of RMB200.0 million and outstanding investment of RMB78.0 million. This project has reached pre-sale status, with a sales absorption rate of 50% by the end of March 2025. At the same time, the Company had 2 housing projects under planning, with a total investment of RMB870.0 million. The relatively large amount of investment may expose the Company to certain business risk and therefore increase its exposure in commercial activities. Furthermore, under the current downturn of the real estate market, increasing investment in property development may bring more operating uncertainties and financial risks to the Company.

LZIH also conducts engineering construction business with relevant qualifications. The Company owns the first-grade qualification for general contracting of construction engineering, the first-grade qualification for professional contracting of foundation engineering, the second-grade professional contracting of steel structure engineering, and the third-grade qualification for general contracting of municipal public construction. The Company newly acquired RMB520.0 million of contracts and completed 14 engineering construction projects in 2024. Moreover, LZIH realized RMB1.3 billion of revenue from its engineering construction business over the same period. However, as majority of the Company's construction projects was from other LIIFCs in Linzhou City and related to real estate projects, this business segment could be easily affected by the changes in local real estate market. Meanwhile, the Company also engage in self-operated projects construction. As of 31 March 2025, the Company had 3 self-operated projects under planning, with a total investment of RMB873.0 million. These projects include the construction of electric charging facilities and smart parking project, and the Company is expected to achieve funding balance through the sales of electricity and collection of parking fees.

In addition, LZIH engages in commodity sales to support local construction industry development, mainly construction-related products, including steel, concrete, coal, and dry mix mortar. However, as affected by the slowdown of local property market and the adjustment of the Company's strategic planning, LZIH's trading revenue significantly reduced from RMB1.9 billion in 2023 to RMB588.5 million in 2024. The Company will adjust its product range according to market demand and market conditions. In addition, the commodity sales business bears relatively moderate concentration risks. As of 31 December 2024, the top 5 suppliers and customers accounted for 46.6% and 47.2% of its total procurements and total sales, respectively. Moreover, the gross profit margin of this business sector is very low.

Increasing debt burden and moderate asset liquidity

Due to the ongoing investment of infrastructure construction and property projects, LZIH's has demonstrated ongoing debt growth and increasing debt leverage. As of 30 June 2025, LZIH's total debt increased to RMB16.2 billion from RMB12.7 billion as of end-2023. While its total capitalization ratio, as measured by total debt to total capital, increased to 51.2% from 45.2% over the same period. In addition, the Company faced certain short-term debt burden, with the short-term debt accounting for 26.1% of the total debt. The Company's cash to short-term debt ratio was around 0.2x, indicating a relatively high refinancing need to cover its short-term debt. Considering the Company's funding needs for its ongoing and planned construction projects, we expect that the Company would continue to rely on external financing to support its business, and its total debt level would further increase over the next 12-18 months.

LZIH's asset liquidity was moderate. As of 30 June 2025, other account receivables, inventories, contract assets,

and other non-current assets together accounted for around 73.5% of the Company's total asset. These assets primarily consist of construction costs of infrastructure and real estate projects, as well as government arrears, which are considered to have low liquidity. Moreover, the Company had pledged RMB4.3 billion of assets for loans, including cash, inventories, and investment properties. These assets accounted for around 12.7% of its total asset as of end-2024. Therefore, LZIH's liquidity profile may undermine its financial flexibility in the near term, thereby affecting its refinancing capability.

Furthermore, there is a risk of recovery associated with the receivables from some private-owned enterprises. The Company's other receivables account contains loans provided to local private-owned enterprises, some of which have been listed as dishonest judgment debtors. The Company had loan receivables of around RMB64.5 million from some private-owned enterprises and a state-owned enterprise ("SOE") as of 30 June 2025, which had been fully provisioned for bad debts and the likelihood of receiving repayments was considered low.

Good access to funding channels

LZIH has good access to funding channels, including bank loans, bond issuance, and non-standard financing. Bank loans account is the major source of funding, accounting for over 60% of the total debt as of 30 June 2025. The Company maintains long-term and close relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks, such as China Development Bank, Agricultural Development Bank of China, and Industrial and Commercial Bank of China Limited. As of 30 June 2025, the Company had total bank facilities of RMB7.6 billion, with an unutilized portion of RMB1.4 billion, indicating relatively sufficient standby facilities.

The Company also has a track record for fund-raising activities in the debt capital market. From January 2024 to August 2025, the Company issued 3 tranches of offshore CNY bond, raising about RMB1.4 billion to support its construction projects. Among them, two bond issuances were guaranteed by financing guarantee companies. Moreover, the Company had a manageable exposure to non-standard financing, which accounting for around 10% of its total debt. The non-standard financing products mainly consist of financial lease and debt financing plan. Taking into account the Company's important status as the most important LIIFC in Linzhou City, we expect the Company to maintain access to stable funding and retain good refinancing capabilities.

Moderate level of contingent risk

The credit profile of LZIH is constrained by its relatively large amount of external guarantees, which could potentially increase its repayment obligations. As of 31 December 2024, the Company's external guarantees were RMB3.1 billion, accounting for 19.4% of its net assets, most of which were provided to local SOEs. Although the Company's external guarantees carry moderate credit risk, the Company could become liable for repayment obligations if a credit event occurs.

ESG Considerations

LZIH bears environmental risks through its shantytown renovation and infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

LZIH bears social risks as it implements public policy initiatives by building public infrastructure in Linzhou 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.

LZIH's governance considerations are also material as the Company is subject to oversight by Linzhou City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Credit Enhancements

LZIH's senior unsecured debt ratings (guaranteed) are based on the long-term credit ratings of Henan Zhongyu Credit Promotion Co., Ltd. ("HZCP") and our assessment on the credit quality of Chongqing Xingnong Financing Guarantee Group Co., Ltd. ("CXFG"), as the bonds (ISIN: HK0001037859, XS2974515533) are unconditionally and irrevocably guaranteed by HZCP and CXFG, respectively. HZCP is the first provincial credit enhancement company in Henan Province founded under the guidance of the State-owned Assets Supervision and Administration Commission of Henan Provincial Government in February 2022. CXFG is a leading financial guarantee company in Chongqing City held by the Chongqing State-owned Assets Supervision and Administration Commission. Any change to the credit quality of HZCP and CXFG could lead to a corresponding change in the rating of the bonds.

Rating Methodology

The methodology used in LZIH's rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

The methodology used in HZCP's rating and CXFG's assessment is the Rating Methodology for [Financial Guarantors \(January 2022\)](#).

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