Credit Opinion

31 July 2026

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-term Credit Rating	BBB_g
Outlook	Stable

Analyst Contacts

Jessica Cao +852-2860 7128
Credit Analyst
jessica_cao@ccxap.com

Rory Li +852-2860 7127
Assistant Credit Analyst
rory_li@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Shandong Zhengfang Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Shandong Zhengfang Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Shandong Zhengfang Holding Group Co., Ltd. ("SDZF" or the "Company") reflects Zoucheng City Government's strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the Zoucheng City Government's capacity to support reflects Zoucheng City's relatively good economic strength and fiscal metrics, as one of the Top 100 counties in China and the top counties by gross regional production ("GRP") in Jining City.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in the infrastructure construction of Zoucheng City, especially the Zoucheng Economic Development Zone ("Zoucheng EDZ"); (2) importance in the provision of local public utility services; and (3) solid track record of government support.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) relatively high short-term debt burden; and (3) medium contingent liabilities risk.

The stable outlook on SDZF rating reflects our expectation that the Zoucheng City Government's capacity to provide support will be stable, and the Company's characteristics such as its important role in the industrial development of Zoucheng City will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Important role in the infrastructure construction of Zoucheng City
- Importance in the provision of local public utility services
- Solid track record of government support
- Medium exposure to commercial activities
- Increasing debt amount with relatively high short-term debt burden
- Access to multiple funding sources along with moderate asset liquidity
- Medium contingent liabilities risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Zoucheng City Government's capacity to provide support strengthens; and (2) Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as significantly improved refinancing ability.

What could downgrade the rating?

The rating could be downgraded if (1) Zoucheng City 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 or deteriorated debt management.

Key Indicators

	2023FY	2024FY	2025FY
Total Asset (RMB billion)	18.1	20.0	22.7
Total Equity (RMB billion)	7.5	7.8	10.1
Total Revenue (RMB billion)	2.3	2.4	1.8
Total Debt/Total Capital (%)	46.6	49.3	48.4

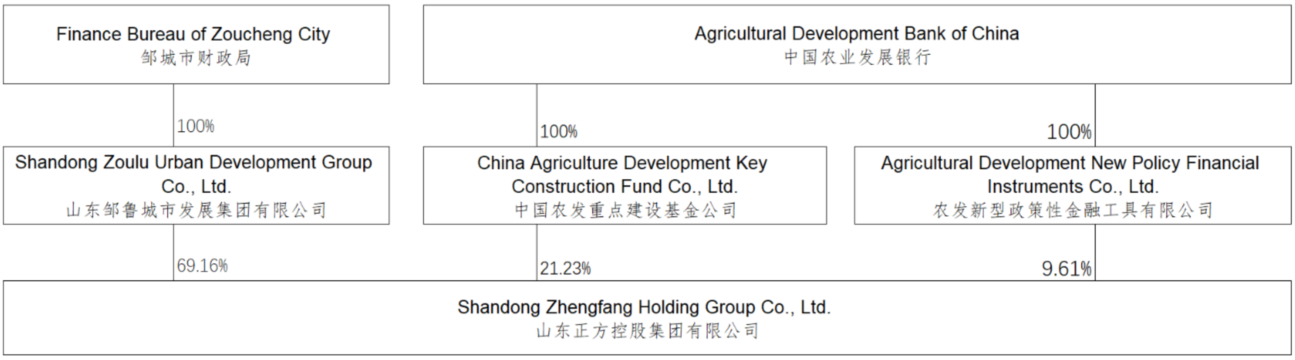
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Founded in 2010, SDZF is one of the key local infrastructure investment and financing companies ("LIIFCs") in Zoucheng City, mainly responsible for infrastructure construction in the Zoucheng EDZ. The Company engages in diversified businesses, including project construction, leasing, trading, labor services, and industrial steam and heat supply. In 2025, Zoucheng State-owned Assets Supervision and Administration Bureau ("Zoucheng SASAB") transferred all of its shares of the Company to Shandong Zoulu Urban Development Group Co., Ltd. ("ZLUD"). Meanwhile, Agricultural Development New Policy Financial Instruments Co., Ltd. injected RMB100.0 million of additional capital into the Company, increasing the paid-in capital of the Company. As of 31 December 2025, ZLUD held 69.16% of the Company's shares, while China Agricultural Development Key Construction Fund Co., Ltd. and Agricultural Development New Policy Financial Instruments Co., Ltd. held the remaining 21.23% and 9.61% of the shares, respectively. SDZF was ultimately controlled by the Finance Bureau of Zoucheng City.

Exhibit 1. Shareholding chart as of 31 December 2025



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2025

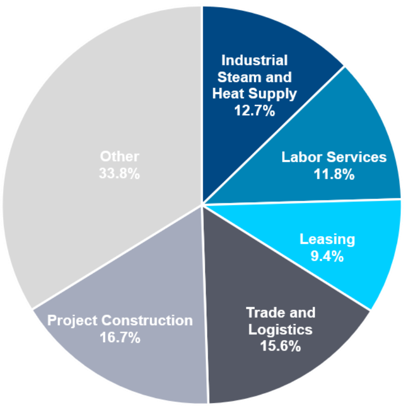
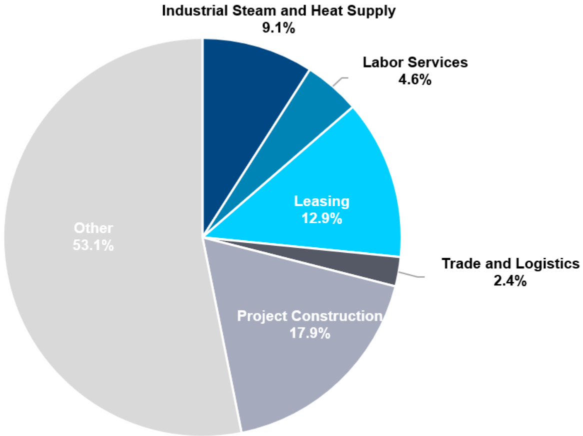


Exhibit 3. Gross profit structure in 2025



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Zoucheng City Government has a strong capacity to provide support given its relatively good economic strength and fiscal metrics, as one of the Top 100 Counties in China in 2025.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Located in the southern part of Shandong Province, Jining City is one of the central cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Thanks to its diversified industrial structure such as coal mining, machinery and equipment manufacturing, paper and paper products, chemical industry goods, and textiles, Jining City's economic strength and fiscal strength had been steadily improved over the past three years. In 2025, Jining City reported a GRP of RMB612.8 billion, representing 5.8% year-over-year ("YoY") growth. Meanwhile, the general budgetary revenue was RMB50.3 billion, reflecting an upward trend over the past three years. However, Jining City has moderate fiscal metrics and debt profile. Its average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 60.8% over the past three years. Tax incomes slightly decreased to RMB30.6 billion in 2025 from RMB31.1 billion in 2024, accounting for 60.9% of its general budgetary revenue. As of 31 December 2025, Jining City's government debt to GRP ratio was 38.6%.

Exhibit 4. Key economic and fiscal indicators of Jining City

	2023FY	2024FY	2025FY
GRP (RMB billion)	551.6	586.7	612.8

GRP Growth (%)	6.5	5.8	5.8
General Budgetary Revenue (RMB billion)	47.5	49.6	50.3
General Budgetary Expenditure (RMB billion)	78.3	80.1	84.3
Local Government Debt (RMB billion)	171.4	201.6	236.3

Source: Jining Municipal Government, CCXAP research

Located in the southwest of Shandong Province, Zoucheng City is a county-level city under the management of Jining City. Zoucheng City ranked 47th among CCID's Top 100 Counties in China in 2025, with good traffic advantages and rich coal resources. It has developed "1+5" pillar industries including digital economy, intelligent equipment manufacturing, high-end green chemical, new energy and new material, health medicine, and industrial robot, simulating Zoucheng City's economic growth in recent years. Supported by abundant resources, several large energy enterprises have settled in Zoucheng City including Yankuang Energy Group Company Limited and Huadian Power International Zouxian Power Plant. Zoucheng City is the largest county/district in Jining City by GRP. It had a GRP of RMB112.9 billion in 2025, accounting for the GRP of 18.4% of Jining City. Zoucheng City Government's general budgetary revenue also has grown for consecutive years. In 2025, its general budgetary revenue increased by 4.0% YoY to RMB10.0 billion, of which tax revenue accounted for 53.3% of its general budgetary revenue, indicating relatively moderate fiscal quality. Meanwhile, Zoucheng City Government has good financial self-sufficiency with average fiscal balance ratios around 100.6% over the past three years. As of 31 December 2025, the outstanding government debt of Zoucheng City Government was RMB19.5 billion, accounting for 17.3% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Zoucheng City

	2023FY	2024FY	2025FY
GRP (RMB billion)	104.1	110.4	112.9
GRP Growth (%)	7.0	6.2	5.8
General Budgetary Revenue (RMB billion)	9.1	9.6	10.0
General Budgetary Expenditure (RMB billion)	9.1	9.0	10.5
Local Government Debt (RMB billion)	11.6	15.3	19.5

Source: Zoucheng City Government, CCXAP research

Established in 1992, Zoucheng Economic Development Zone ("Zoucheng EDZ") is a provincial-level zone covering 95.41 square kilometers. Focused on high-tech, advanced manufacturing, and modern logistics, it has built a strong industrial foundation in coal chemistry, machinery manufacturing, medicine, and new materials, serving as a key driver for Zoucheng's economic and fiscal growth.

Government's Willingness to Provide Support

Important role in the infrastructure construction in Zoucheng City

There are two major LIIFCs in Zoucheng City under the control of Zoucheng City Government, namely Zoucheng Urban Assets Holding Group Co., Ltd. and ZLUD. Specifically, ZLUD serves as a critical platform for industrial development, comprehensive urban operations, and state-owned asset management in Zoucheng City. As one of the main subsidiaries of ZLUD, SDZF is a key entity in infrastructure construction in Zoucheng City, mainly for projects in the Zoucheng EDZ such as industrial park construction, road construction and improvement, and river course improvement.

SDZF engages in infrastructure construction mainly under the agency construction model. The Company signs entrusted construction agreements with Zoucheng Urban Construction Industry Development Co., Ltd., which is wholly owned by Zoucheng SASAB and mainly responsible for project construction, fundraising and management, investment control, and acceptance. The Company receives the actual construction cost plus a certain markup, generally 20%, as project construction revenue according to the construction progress of the project. As of 31 December 2025, the Company has completed key projects of RMB3.9 billion in total investment, including the water diversion project, Zoucheng Lingang Logistics Park construction project, and public utilities. The Company had received RMB3.2 billion of government paybacks as of the same date. At the same time, the Company had 1 project under construction with a total investment of RMB1.2 billion and an uninvested amount of RMB125.0 million. As of end-2025, the Company had no infrastructure projects under planning.

Importance in the provision of public utility services

SDZF provides public utility services including heat and gas supply in Zoucheng City, and water supply for industrial zones, with certain franchising advantages. In August 2024, the Company transferred out the subsidiaries that involved in bus operation business because of the state-owned assets operation plan, and the Company will no longer be involved in bus operations since then.

With some small-scale power plants being required to shut down in Zoucheng EDZ, SDZF enters into the heat supply business in 2021 to fulfill the local needs which is essential to the livelihood of local residents and secure industrial activities. The Company provides heat for residents in Dongtan, Baodian and Nantun mining areas, and Yanzhou District. It also provides steam for companies located in the Zoucheng EDZ. As of end-2025, the Company had an annual supply capacity of 3.0 million tons in steaming. The heat and stream supply businesses have recorded a revenue of RMB227.5 million in 2025. The Company has not fully utilized the production capacity. As more outdated capacities are eliminated in the Zoucheng EDZ, the Company’s revenue from the heat and stream supply is expected to increase in the near term. Meanwhile, the Company had 1 steam supply project under construction, with total investment of RMB660.0 million, and outstanding amount of RMB327.0 million. Considering the relatively large scale of ongoing investment, the Company may face greater capital expenditure pressure in the near term.

Meanwhile, in 2025, the Company established a new water supply business segment, which primarily provides reclaimed water within its self-operated industrial parks. The Company conducts its water supply business through three key projects, which are the Water Supply Capacity Upgrading Project, the Lake Water Eastward Diversion Project, and the Comprehensive Water Pollution Control in Western Zoucheng. As of 31 March 2026, the Company had two water supply projects under construction, with a total investment of RMB1.7 billion and an uninvested amount of RMB986.7 million. In 2025, the water supply business recorded revenue of RMB38.9 million and a gross profit margin of 55.0%. Although still in its initial stage of development, the business delivered sound profitability. With the completion of the projects under construction, the Company’s water supply revenue is expected to further increase in the future.

Solid track record of government support

SDZF has a solid track record of government support in terms of obtaining franchised business, special fund allocations for project construction, financial subsidies, asset transfer, and equity shares transfer. From 2024 to 2025, the Company had received RMB125.5 million of financial subsidies from the Zoucheng City Government. In 2025, ZLUD transferred government special bonds and shares of Zoucheng Tianyi New Building Materials Technology Co., Ltd. to the Company without compensation, which increased the Company’s capital reserve by around RMB2.1 billion. These asset transfers enhanced the capital strength of the Company. Given the important role in infrastructure construction and public services provision in Zoucheng City, we expect the Company will continue to receive support from the local government.

Medium exposure to commercial activities

SDZF engages in various commercial activities including trading, leasing, labor services, and usable waste sales. The Company's commercial activities accounted for more than 30.0% of its total assets, while such business risks are considered to be moderate as most of these businesses have certain regional franchises.

SDZF leased its purchased property and assets allocated by the local government to supplement its income, which mainly includes office buildings, factories, industrial parks, shops, low-rent housing, water plants. In addition, the Company also has a large investment in industrial park construction and supporting infrastructure, and plans to balance the initial investment primarily through sales and leasing. As of 31 December 2025, the Company had 9 completed self-operated projects, with a total actual investment amount of RMB2.0 billion and an overall occupancy rate of 78%. Meanwhile, the Company had 7 key projects and supporting infrastructure under construction with a total planning investment of RMB2.9 billion and an uninvested amount of RMB990.9 million. However, the Company may face some business operation risks as this business is highly subject to the economic condition in Zoucheng City and the progress of investment promotion.

Additionally, the Company's leased assets also include wastewater networks, subsidence water areas, and irrigation rights, which were acquired in 2024 with government allocation. These assets maintain a 100% occupancy rate by private lessees on 1-year terms, and all were renewed until early 2027. However, except some lagging rental collections, in 2025, negative credit events emerged among downstream tenants, Zoucheng Xincheng Wastewater Treatment Co., Ltd. was listed as a dishonest debtor, and shares of Shandong Guaguaxiang Duck Products Co., Ltd. were frozen. Therefore, close attention must be paid to tenants' operational risks and rent collection status.

Apart from self-operated projects, the Company also engages in trading business mainly under the back-to-back mode. Major products include coal, ferronickel, nickel ore and tractor head. The Company will enter into purchase orders according to sale contracts with its downstream customers, with a decent margin. Affected by intensifying market competition, the Company's trading volumes of coal and ferronickel dropped significantly in 2025, resulting its trading revenue decreased significantly to RMB278.5 million in 2025 from RMB662.4 million in 2024. In the same year, the Company launched a new tractor head trading business, which was still in its initial stage of development. Sales from the commodity trading segment account for a relatively large portion of the Company's operating income but generated small profit. At the same time, the concentration risk was high for this business as the Company's trading volume with its top 5 suppliers and customers had accounted for over 73.9% and 81.4% of its procurement and sales in 2025, respectively. Moreover, given that some downstream customers are private enterprises with a history of payment delays, this segment may face higher risk.

The Company also provides labor services, primarily labor dispatch for nearby industrial enterprises, service industries and other state-owned enterprises ("SOEs"). Management fees range from RMB60 to RMB95 per person, or 10% of gross salary capped at RMB300 per month for certain clients. Driven by steady growth, labor service revenues reached RMB 180.0 million, 199.0 million, and 212.0 million from 2023 to 2025, with gross profit margins of 6.67%, 8.45%, and 8.95%, respectively. Regarding customer concentration, the top five clients accounted for 16.86% of the segment's revenue in 2025, indicating a reasonable downstream distribution.

In 2025, the Company added a new usable waste sales business, with customers primarily construction enterprises in Zoucheng City. This followed the local government's transfer of sand, stone, and usable waste resources of RMB1.8 billion to the Company in December 2024. SDZF recorded revenue of RMB254.0 million and a gross profit margin of 36.5% from usable waste sales in 2025. This business delivered sound profitability and provided supplement to the Company's total revenue and profits.

Increasing debt amount with relatively high short-term debt burden

With the fast growth in the Zoucheng EDZ, SDZF has undertaken many major projects, leading the high level of debt burden over the past years. SDZF's total debt increased from RMB7.6 billion as of end-2024 to RMB9.5 billion as of end-2025. The total capitalization ratio (total debt/total capital) of SDZF stood at 48.4% in 2025, indicating a moderate level of debt leverage. However, the Company has a relatively high short-term debt burden, with short-term debt accounting for 38.3% of total debt by the end of 2025. Meanwhile, the cash to short-term debt ratio was 0.3x, which could not fully repay the short-term debt. Considering the ongoing investment of the Company, it still needs to rely more on external financings such as government special funds, debt capital market and project loans to meet its capital needs.

Access to multiple funding sources along with moderate asset liquidity

SDZF has different financing channels such as banks, onshore and offshore debt capital market, government special bond funds, and non-standard financing. The debt from bank loans and bond issuances accounted for the majority of total debt. Moreover, the Company's non-standard financing scale has declined, accounting for 1.6% of the Company's total debt as of end-2025, which mainly included financing leases and trusts. Such fundings generally have higher costs, heightening the refinancing needs for the Company.

SDZF's financing ability is supported by its good relationships with banks. As of 31 December 2025, the Company had bank credit facilities of approximately RMB6.0 billion, of which available portion was approximately RMB1.3 billion. SDZF has also actively expanded its financing channels. For example, in November 2025, the Company issued two tranches of 3-year offshore bonds, raising a total of RMB940.6 million. From 2025 to June 2026, the Company's subsidiary Shandong Zhengfang High-Tech Industrial Holding Group Co., Ltd. ("ZFIH") issued one tranche of onshore private placement note and one tranche of offshore bond, raising RMB500.0 million and RMB100.0 million, respectively.

The Company's asset liquidity is moderate, with inventories (primarily recyclable wastes), projects under construction, long-term equity investments, other equity instrument investments and receivables accounted for 43.6% of its total asset as of end-2025. These assets are considered to have low liquidity, and can only generate low revenue to the Company. Moreover, SDZF has pledged some of its assets for loan, with a total amount of RMB6.1 billion, accounting for 27.0% of its total assets. This may undermine the Company's financial flexibility.

SDZF's refinancing ability has a significant impact on its financing stability, which may be easily influenced by the change in the financing market. The refinancing environment in Zoucheng City is moderate and the local LIIFCs bear a relatively higher funding cost. Furthermore, there is a phenomenon of intercompany lendings and mutual guarantees among local SOEs in Zoucheng City, which exposes local SOEs to cross-default risks in case a credit event exists.

Medium level of contingent risk

SDZF faces medium level of contingent liability risk. As of 31 December 2025, the Company had external guarantees amounted to RMB2.2 billion, accounting for 21.6% of its net assets. Most of the guarantees were provided to local SOEs such as Shandong Honghe Holding Group Co., Ltd. and Limin Construction Development Group Limited, while RMB29.9 million of the guarantees were provided to an enterprise in which the Company has equity participation. Moreover, one guaranteed party was involved in a litigation case, which may lead to RMB50.0 million of potential repayment obligation for the Company. Mutual guarantees between local SOEs are common in Zoucheng City which is mainly due to the increasing financing needs of local SOEs. However, in case a credit event occurs, the Company may face significant contingent liability risks and cross-default risks.

ESG Considerations

SDZF faces environmental risks because it has undertaken construction in Zoucheng City. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

SDZF bears social risks as it implements public policy initiatives by undertaking construction projects and providing public services in Zoucheng 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.

SDZF’s governance considerations are also material as the Company is subject to oversight by the Zoucheng City Government and has to meet several 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).

Appendix

Exhibit 6. Peer Comparison

	Zoucheng Urban Assets Holding Group Co., Ltd.	**Shandong Zhengfang Holding Group Co., Ltd.**
Long-Term Credit Rating	BBB_g	BBB_g
Shareholder	Finance Bureau of Zoucheng City (100%)	Shandong Zoulu Urban Development Group Co., Ltd. (69.2%), China Agriculture Development Key Construction Fund Co., Ltd. (21.2%), Agricultural Development New Policy Financial Instrument Co., Ltd. (9.6%)
Positioning	Key entity in urban infrastructure and state-owned assets operation in Zoucheng City	Key entity in infrastructure construction in Zoucheng City, especially the Zoucheng Economic Development Zone
Total Asset (RMB billion)	69.1	22.7
Total Equity (RMB billion)	21.5	10.1
Total Revenue (RMB billion)	9.1	1.8
Total Debt/Total Capital (%)	63.9	49.7

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2025.

Source: Company data, CCXAP research

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656