

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Hanjian Group Co., Ltd.**

HONG KONG, 14 June 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Jiangsu Hanjian Group Co., Ltd. (“JHG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Hanjiang District (“the Hanjiang government”) would provide strong support to JHG if needed, in light of its indirect majority ownership of JHG, JHG’s strategic importance as a key state-owned building contractor in Yangzhou’s Hanjiang District (“Hanjiang”), and the linkage between the Hanjiang government and JHG, including approval of its senior management appointment, and major investment and financing decisions, strategic alignment, and ongoing operational and financial support. In addition, the Hanjiang government may face significant negative impact on its reputation and financing activities if JHG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that JHG’s strategic importance would remain intact while the Hanjiang government will continue to ensure JHG’s stable operation.

**Key Rating Rationales**

**Government’s Ownership and Supervision:** JHG’s linkage with the Hanjiang government is moderately strong. The Hanjiang government, as the ultimately controller, indirectly holds majority shares of JHG. It also has strong control and supervision over the company, including the approval of management appointment, strategic development, and major investment and funding plans. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise its operating performance and financials on a periodic basis.

**Strategic Importance to Hanjiang and Strategic Alignment:** JHG is key state-owned building contractor in Hanjiang, undertaking major infrastructure and public facilities projects, such as roads and bridges, resettlement housing, school, hospital within the region. The company’s business operation plays a significant role in Hanjiang’s infrastructure construction and urban development. Nevertheless, JHG’s activities focus on construction stage of projects as a building contractor, compared with other LIDCs responsible for financing, development and operation of designated projects. This could constrain JHG’s overall strategic positioning in Hanjiang.

**Ongoing Government Support:** The Hanjiang government provides ongoing operational support to JHG. The company enjoys advantages in obtaining projects in Hanjiang. It also receives financial subsidies amounting to RMB26 million between 2021 and 2023. In addition,

the Hanjiang government coordinates other LIDCs to provide financial guarantees to JHG, enhancing the company's access to fundings.

***Economy and Fiscal Condition of Hanjiang:*** Hanjiang is a municipal district under the jurisdiction of Jiangsu's Yangzhou City ("Yangzhou"). Hanjiang's GDP growth rate fluctuated in the past few years, owing to Covid's disruption. The GDP amount of Hanjiang grew by 6.3% to RMB120.5 billion in 2023, which was ranked 2<sup>nd</sup> out of six jurisdictions of Yangzhou.

The budgetary revenue of Hanjiang government rebounded to RMB5.1 billion in 2023 from RMB4.5 billion in 2022. The fiscal self-sufficiency capacity of the Hanjiang government was moderately weak, with budget deficit of 58.3% in 2023, despite the narrowing trend in the past few years. The government fund income, accounting for c.40% of its aggregate fiscal revenue and mainly generated from land sales, remained relatively weak, owing to the property market downturn.

The outstanding debt of the Hanjiang government continued to grow in the past three years, mainly due to the new issuance of special debts to support local public projects. As a result, the Hanjiang government's fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 100.8% at end-2023 from 72.3% at end-2021.

***JHG's Financial and Liquidity Position:*** JHG's total asset remained relatively stable in the past few years and reached RMB15.9 billion at end-March 2024. JHG's total debt decreased to RMB4.7 billion at end-March 2024 from RMB5.5 billion at end-2022. The company's financial leverage, as measured by total liability/total asset, remained relatively stable in the past few years at 54%-56% level.

JHG's asset liquidity was relatively weak, as the company's project construction activities had accumulated sizable account receivables and other receivables, which added up to RMB6.4 billion at end-March 2024, representing 40.5% of total asset. They were primarily due from local government agencies and LIDCs, and their repayment schedules are highly subject to the fiscal conditions of the local government.

The short-term debt servicing pressure of JHG was moderately high. The company had cash balance of RMB1.1 billion at end-March 2024, compared with its debts due within one year of RMB3.8 billion. The company primarily relies on short-term bank loans, most of which can be rolled over on a period basis. At end-June 2023, JHG had total bank line amounting to RMB3.2 billion, of which RMB1.1 billion was unused. Additionally, the company has other financing channels, including bond issuance and factoring, to support its daily operations and debt repayment.

### **Rating Sensitivities**

We would consider downgrading JHG's rating if (1) there is perceived weakening in support from the Hanjiang government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Hanjiang

government's ownership of JHG, or (3) there is a downgrade in our internal credit assessment on the Hanjiang government.

We would consider upgrading JHG 's rating if (1) there is strengthened support from the Hanjiang government, (2) there is an upgrade in our internal credit assessment on the Hanjiang government.

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

### **Rating Methodology**

The principal methodology used in this JHG's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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