

## Jiangsu Hanjian Group Co., Ltd.

### Initial Issuer Report

#### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	14 June 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Hanjian Group Co., Ltd. (“JHG” or “the company”)

#### Summary

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, strategic alignment, and major investment and financing decisions 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.

#### Rating Rationale

**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 and 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 from the local government. In addition, the Hanjiang government coordinates other local Investment and Development companies (“LIDC”) 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.

#### Key Figures of JHG and Hanjiang District

(RMB billion)

Hanjiang District	2022	2023
GDP	114.6	120.5
GDP growth rate (%)	3.3	6.3
Budgetary revenue	4.5	5.1
Government fund	4.6	5.3
Transfer payment	3.0	2.7
Budgetary expenditure	4.5	4.9
JHG	2023	2024.3
Asset	15.9	15.9
Equity	7.2	7.3
Revenue	10.6	3.5

Source: Public information, JHG and Lianhe Global’s calculations

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#### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

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.

## Operating Environment

### Economic Condition of Hanjiang District

Hanjiang is a municipal district under the jurisdiction of Yangzhou, and is located in the western part of Yangzhou's main urban area. Hanjiang has jurisdiction over 6 towns and 8 streets, with a total land area of 553 square kilometers. It also owns one national-level high-tech zone, one provincial-level economic development zone and several other industrial

parks. At end-2022, Hanjiang had a resident population of 0.86 million, with an urbanization rate of 87.8%.

Hanjiang's GDP growth rate fluctuated in the past few years, owing to Covid's disruption, which was 5.4%, 3.3% and 6.3% in 2021, 2022 and 2023, respectively. The GDP amount of Hanjiang reached RMB120.5 billion in 2023, which was ranked 2<sup>nd</sup> out of six jurisdictions of Yangzhou. The economy of Hanjiang was mainly boosted by the secondary and tertiary industries, which accounted for 40.9% and 57.3% of the GDP in 2023, respectively.

<b>Hanjiang's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
GDP	120.9	124.7	120.5
-Primary industry (%)	2.0	2.0	1.9
-Secondary industry (%)	40.6	42.8	40.9
-Tertiary industry (%)	57.4	55.2	57.2
GDP growth rate (%)	5.4	3.3	6.3
Fixed asset investment	52.9	47.5	51.2
Fixed asset investment growth rate (%)	-5.4	-10.1	7.7
Population (million)	0.86	0.86	0.86*

*\* Estimated data*  
*Source: Public information and Lianhe Global's calculations*

### Fiscal Condition of Hanjiang District

The aggregate fiscal revenue of the Hanjiang government is mainly derived from budgetary revenue and government fund income. The budgetary revenue of Hanjiang government slumped to RMB4.5 billion in 2022 from RMB5.4 billion in 2021, but rebounded to RMB5.1 billion in 2023, with the contribution of tax revenue to budgetary revenue fluctuating between 74.9% and 84.7% in 2021-2023. 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. At end-2023, the Hanjiang government's outstanding debt reached RMB13.2 billion, up from RMB10.4 billion at end-2021, 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.

<b>Hanjiang's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Budgetary revenue	5.4	4.5	5.1
Budgetary revenue growth rate (%)	-9.5	-9.3	11.2
Tax revenue	4.3	3.4	4.3
Tax revenue (% of budgetary revenue)	79.1	74.9	84.7
Government fund income	5.7	4.6	5.3
Transfer payment	3.2	3.0	2.7
<b>Aggregate revenue</b>	<b>14.3</b>	<b>12.1</b>	<b>13.1</b>
Budgetary expenditure	8.9	7.5	8.0
Budget balance <sup>1</sup> (%)	-62.7	-64.2	-58.3

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%  
*Source: Public information and Lianhe Global's calculations*

## Ownership Structure

### Government's Ownership

JHG was established in January 1997 with a registered capital of c. RMB51.59 million, co-funded by Hanjiang Construction and Engineering Co., Ltd. ("HCE") and several individuals. After an array of capital injections and equity transfers, JHG's registered capital and paid-in capital reached RMB1.0 billion and RMB595 million, respectively, at end-2023.

By end-2023, the Hanjiang government, as the ultimately controller, indirectly held majority shares of JHG through Jiangsu Wanyu Investment Development Co., Ltd. ("JWID") (44.03%) and HCE (7.51%); the remaining 48.46% shares were held by two holding vehicles owned by individual shareholders.

## Strategic Importance and Government Linkage

### Strategic Importance of JHG to Hanjiang District

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.

### Linkage with the Local Government

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.

### 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.

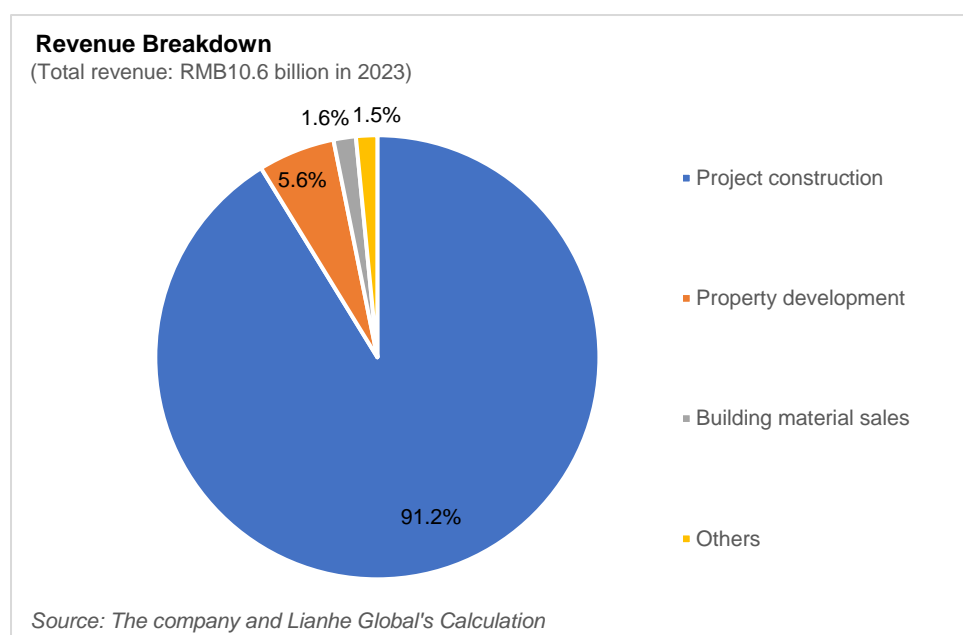
## Business Profile

### Hanjiang's Key State-owned Building Contractor Specializing in Infrastructure, Public Facility and Property Projects

JHG is a key state-owned building contractor in Hanjiang, with a strong regional competitive advantage. The company specializes in infrastructure, public facility and property projects, mainly in Jiangsu. The primary source of operating revenue for the company are project

construction and properties development businesses, while it also engaged in building material sales, property management service, etc.

The company's total revenue reached RMB12.5 billion, 11.1 billion and RMB10.6 billion in 2021, 2022 and 2023, respectively, representing a downward trend, owing to the weak property market. Its overall gross profit margin remained relatively stable at 9%-10% over the same period.



### Project Construction

JHG enjoys a strong competitiveness and good reputation in project construction business, supported by its all kinds of construction qualifications and sound construction quality. The company acquires projects through strategic cooperation or public bidding, and the projects mainly involves construction of infrastructure and public facilities, such as resettlement housing, roads and bridges, schools and hospitals. It also engages in the construction of residential and commercial properties, as well as building installation and decoration, etc.

JHG's client mainly includes government agencies, LIDCs and property developers. The company usually pays advances no more than 30% of the contract amount and recognize revenue according to the construction progress. The projects in this segment have a relatively long repayment cycle, and the company is working on several large-scale projects, thus it incurs high capital expenditure pressure.

### Property Development, Building Material Sales and Others

JHG has developed a series of residential property projects, mainly in Yangzhou and some in other cities and provinces. However, revenue from property sales was decreasing in the past three years, owing to the weak property market, and only contributed a relatively small portion of the company's total revenue.

JHG's building material sales business mainly involves the sales of steelwork and thermal insulation material. The company also operates property management service. Yet these

businesses play a supplementary role and have little impact on JHG's financial position and creditworthiness.

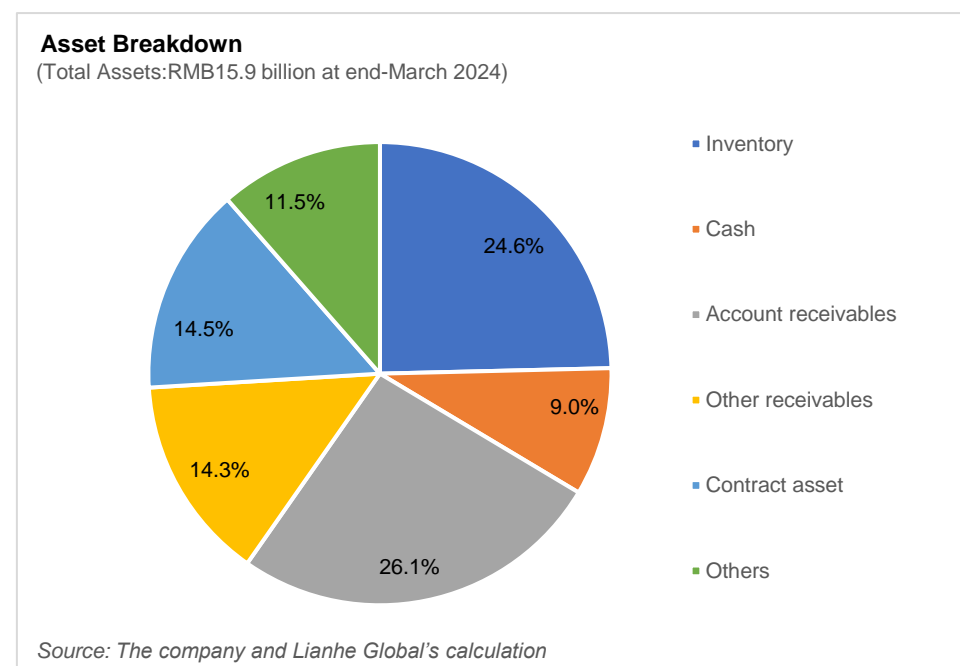
## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024.3</b>
Total Asset	15,795	15,352	15,947	15,873
Equity	7,174	6,876	7,200	7,311
Debt	5,260	5,524	4,876	4,691
Debt / (Debt + Equity) (%)	42.3	44.5	40.4	39.1
LT Debts	1,481	1,197	633	918
LT Debt / (LT Debt + Equity) (%)	17.1	14.8	8.1	11.2

*Source: JHG and Lianhe Global's calculations*

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, while the proportion of short-term debt increased to 80.4% to 78.3% over the same period, indicating heightened short-term debt repayment pressure. 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 SOEs, and their repayment schedules are highly subject to the fiscal conditions of the local government. In addition, the company also had a large amount of inventories (mainly contract costs and development costs), representing 24.6% of total asset at end-March 2024. These inventories usually take a long time to monetize due to the protracted construction and payment collection period.



### Debt Servicing Capability

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. Due to the nature of JHG's projects, the company primarily relies on liquidity 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.

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