

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

Hong Kong, 29 August 2025 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Shandong Commercial Group Co. Ltd. (“Lushang Group” or the “Company”)’s long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating is underpinned by the Company’s (1) well-diversified business portfolio to diversify business risks and mitigate revenue volatility; (2) leading market position in the retail sector, with a comprehensive store portfolio; and (3) good branding in cosmetic and pharmaceutical business, with online-and-offline distribution channels.

However, the rating is constrained by the Company’s (1) high geographic concentration and destock pressure in the property business; (2) high debt leverage and moderate credit metrics; and (3) moderate liquidity position.

The rating also reflects moderate support from the Shandong Provincial Government, when necessary, which is based on the Company’s (1) direct and full ownership by the provincial government; (2) strategic importance in economic and social development in Shandong Province; and (3) good track record of receiving ongoing government support.

Corporate Profile

Founded in 1992, Lushang Group is a state-owned capital investment platform in Shandong Province. The Company mainly engages in retail, health and wellness properties, pharmaceutical, and trading businesses. The Company has three publicly listed subsidiaries, Inzone Group Co., Ltd. (“Inzone Group”, Stock Code: 600858.SH), Lushang Freda Pharmaceutical Co., Ltd. (“Freda Pharmaceutical”, Stock Code: 600223.SH), and Lushang Life Services Co., Ltd. (“LSFW”, Stock Code: 2376.HK). As of 31 March 2025, the Shandong Provincial State-owned Assets Supervision and Administration Commission (“Shandong SASAC”) directly held 70% of the Company’s shares and was its ultimate controller, while Shandong Guohui Investment Co., Ltd. and Shandong Caixin Asset Management Co., Ltd. held 20% and 10% of the Company’s shares, respectively.

Rating Rationale

Credit Strengths

Well-diversified business portfolio to diversify business risks and mitigate revenue volatility. According to the ranking released by Shandong SASAC, Lushang Group is one of the top 10 provincial state-owned companies based in Shandong Province. The Company has a well-diversified business portfolio, entering into industries including retail, pharmaceutical, health and wellness properties, and commodity trading businesses. The Company also expands its footprint in cultural tourism, education, healthcare, media, financial services, and e-commerce businesses. We believe that the Company can diversify its business risks and

mitigate revenue volatility through synergistic operation of its multiple business segments, which is credit positive.

Leading market position in the retail sector, with a comprehensive store portfolio.

Lushang Group has demonstrated a leading market position in Shandong Province's retail sector, supported by its distinct brand identity and scale advantage. According to data from the China Chain Store & Franchise Association, it ranked 1st in 2024 among chain store operators in Shandong Province in terms of sales volume.

Good branding in the cosmetic and pharmaceutical business, with online and offline distribution channels. Through Freda Pharmaceutical, Lushang Group engages in the research and development, production, sale and distribution of a broad range of cosmetic products, pharmaceutical, and healthcare products. Benefited by the expansion of online sales channels, Lushang Group's pharmaceutical business continues to thrive, but the growth has slowed due to factors including the slowdown of the industry growth rate.

Credit Challenges

High geographic concentration and destocking pressure in the property business. Since 2021, affected by the slowdown of the property market, the Company slowed down the land investment and business expansion, and the contracted sales dramatically decreased. Besides, the Company's property projects and land reserves are highly concentrated in second-tier and third-tier cities in Shandong Province, susceptible to changes in local regulatory policies and property market conditions.

High debt leverage and moderate credit metrics. With continuous funding for its expansion from the pharmaceutical industry and continuous investment in property projects under construction, Lushang Group's debt leverage has remained at a high level in recent years. In addition, Lushang Group's debt servicing capability remained relatively weak. Given the Company's large expenditure pressure from the construction projects in the pipelines and its acquisition appetite, we expect that its debt leverage will remain at a relatively high level in the next 12 to 18 months.

Moderate liquidity position. Lushang Group has a moderate liquidity position. As of 31 March 2025, the Company reported cash reserves of RMB12.3 billion, insufficient to cover its short-term debt of RMB27.4 billion. The Company has improved its debt maturity structure, but the short-term debt repayment pressure is still relatively high. The Company's short-term debt ratio decreased from 68.6% at end-2023 to 52.1% at end-2025Q1. The large amount of short-term debt has exerted high refinancing pressure on the Company.

Rating Outlook

The stable outlook on Lushang Group's rating reflects our expectation that the Company will maintain strong competitiveness in the retail sector in Shandong Province. We also expect that, as a state-owned enterprise, it will receive ongoing support from the local government.

What could upgrade the rating?

The rating could be upgraded if (1) the Company's business strength and asset quality improve; and (2) the Company's stand-alone credit profile improves significantly, such as an improvement in debt structure and leverage.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in debt leverage or liquidity.

Rating Methodology

The methodology used in this rating is the [Rating Methodology for General Corporate \(April 2019\)](#).

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:

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