Credit Opinion

29 August 2025

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

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Shandong Commercial Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g+ long-term credit rating of Shandong Commercial Group Co., Ltd. ("Lushang Group" or the "Company") 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.

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.

Rating Drivers

- Well-diversified business portfolio to diversify business risks and mitigate revenue volatility
- Leading market position in the retail sector, with a comprehensive store portfolio
- Good branding in cosmetic and pharmaceutical business, with online and offline distribution channels
- High geographic concentration and destocking pressure in the property business
- Increased revenue with weak asset profitability
- High debt leverage and moderate credit metrics
- Moderate liquidity position partially mitigated by good access to capital
- Moderate likelihood of support from the Shandong Provincial Government

Rating Sensitivities

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.

Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	133.2	129.0	123.4	124.1
Total Equity (RMB billion)	25.4	24.2	21.2	21.3
Total Revenue (RMB billion)	33.4	46.3	47.1	12.5
Net Profits (RMB billion)	0.1	0.1	0.3	0.1
EBIT Margin (%)	4.7	3.0	3.0	-
Return on Assets (%)	1.2	1.1	1.1	-
Total Debt/Total Capital (%)	70.9	70.9	70.9	71.7
Total Debt/EBITDA (x)	16.4	16.5	16.9	-
EBITDA/Interest (x)	1.3	1.2	1.3	-
FFO/Total debt (%)	4.3	4.3	4.1	-

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

Source: Company data, CCXAP research

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.

Exhibit 1. Revenue structure in 2024

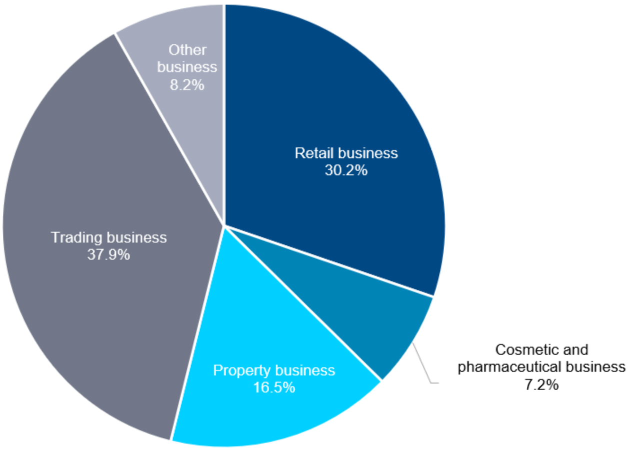
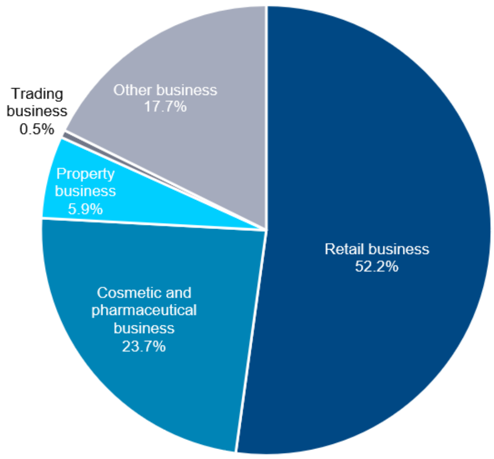
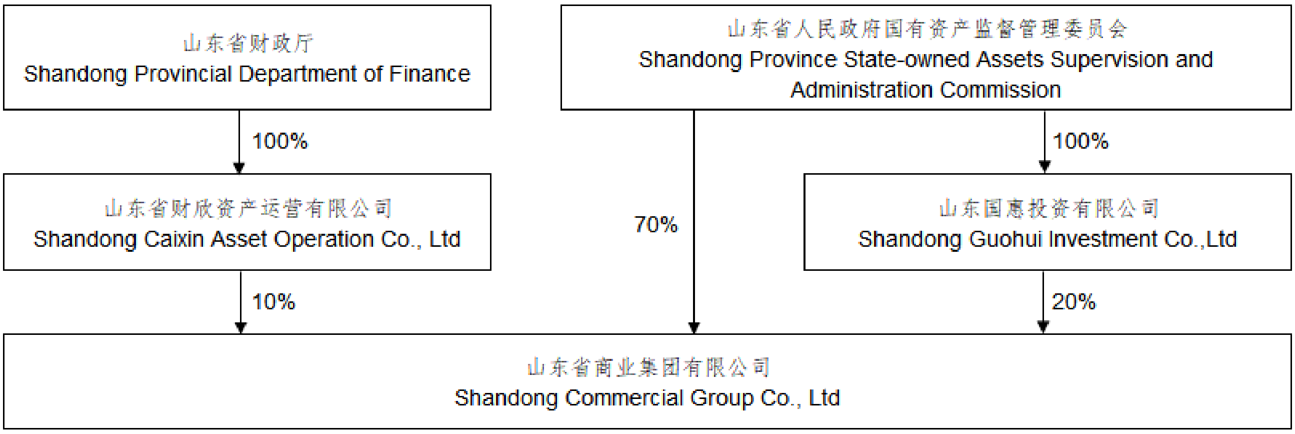


Exhibit 2. Gross profit structure in 2024



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2025



Source: Company information, CCXAP research

Rating Considerations

Business Profile

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.

Exhibit 4. Lushang Group's listed subsidiaries as of 31 March 2025

	Stock code	Share holding	Business type
Inzone Group Co., Ltd.	600858.SH	41.63%	Retail
Lushang Freda Pharmaceutical Co.,Ltd.	600223.SH	54.28%	Pharmaceuticals and cosmetics
Lushang Life Services Co., Ltd.	2376.HK	41.31%	Property service

Source: Company information, CCXAP research

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. The Company operates a comprehensive store portfolio with five major types of stores, including department stores and supermarket complexes, shopping centers, homeware stores, electrical appliance stores, and automobile franchise stores, mainly under the brand "INZONE". These stores are located across all 17 municipalities in Shandong Province, as well as cities in Henan Province, Hebei Province, and Beijing. As of 31 March 2025, the Company owned 244 retail shops, with a total area of 4.6 million square meters ("sqm"). The Company exited the unprofitable convenience store business by selling its 45% stake in Shandong Tongyi Inzone Commerce Co., Ltd. in 2024, for which the number of retail stores operating decreased to 244 as at end-2025Q1 from 454 as at end-2023, and the operating area decreased by around 0.2 million sqm during the same period. Nevertheless, its impact on the operation of the Company's retail business and financial performance was insignificant.

Exhibit 5. Lushang Group's major types of retail stores as of 31 March 2025

	Number of Stores	Total Area (Thousand sqm)
Department store and supermarket complex	175	3,381.7
Shopping center	5	601.0
Homeware store	6	455.5
Electrical appliance store	51	62.1
Automobile franchise store	7	77.4
Total	**244**	**4,577.7**

Source: Company information, CCXAP research

The retail business is a core sector and the largest gross profit contributor for Lushang Group. The retail business is sensitive to macroeconomic conditions and retail market changes, such as the trend of online shopping. The Company confronts fierce competition in the retail market. The Company's revenue from the retail business decreased from RMB14.4 billion in 2023 to RMB14.2 billion in 2024, with profit margin decreasing from 33.7% in 2023 to 30.6% in 2024, mainly due to the significant expenses incurred in the renovation and upgrading of a key store, Shandong Inzone Mall. The Company has taken several measures to cater to market demand and improve its competitiveness. Lushang Group has diverse retail store portfolios, including department stores and supermarket complexes, shopping centers, homeware stores, electrical appliance stores, and automobile franchise stores, which can satisfy different retail demands. Lushang Group has also collaborated with ByteDance and Kuaishou to broaden its online channels. The Company will adjust the number of stores and improve profitability in a timely manner through upgrading retail shops and combining its online and offline channels to suit customer behavior changes. Moreover, the Company has strengthened its brand influence by establishing production lines such as pre-made food, and logistics and distribution centers. We believe that these measures can alleviate its operating pressure and Lushang Group can maintain its leading market position in Shandong Province.

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. The revenue rose from RMB3.3 billion in 2023 to RMB3.4 billion, with the gross profit margin further improving from 57.7% to 58.6% in 2024. Cosmetic products contributed 73.5% of this sector’s revenue in 2024.

Pharmaceutical products are sold through an extensive sales and distribution network nationwide. In addition, the Company’s skin care ingredients are exported to over 80 countries in Australia, North America, the European Union, Japan, and South Korea, achieving high reputation among customers. We believe that the reasonable product mix and the extensive sales network have reduced the Company’s concentration risk in a single product and a single market, which are credit positive.

Lushang Group attaches great importance to the research and development (“R&D”) of pharmaceutical products, with the R&D spending furthering increasing to RMB354.0 million in 2024 from RMB322.0 million in 2023. The Company has applied for 94 new patents and launched more than 140 new products in 2024. The Company also conducts research on ingredients for skin care products and is one of the leading hyaluronic acid manufacturers in the world. Freda Pharmaceutical also invested in Shandong Bausch & Lomb Freda Pharmaceutical Co., Ltd., one of the largest ophthalmic medicine manufacturers in China. Considering its continuous investment in research, joint ventures, and the acquisition of industry-chain enterprises, we expect the Company’s competitiveness in the pharmaceutical industry chain will continue to be strengthened.

High geographic concentration and destock 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. Due to the property market downturn, the Company’s contracted sales decreased from RMB7.3 billion in 2023 to RMB6.2 billion in 2024. Due to the Company's implementation of destocking policies and the absence of new large development projects, the inventory of real estate projects continued to decrease, leading to a corresponding decline in revenue. The Company’s revenue from the property business decreased from RMB11.3 billion in 2023 to RMB7.8 billion in 2024, with profit margin decreasing from 9.7% to 6.4% during the same period. Considering that the real estate market has not fully recovered, we expect the Company’s contracted sales will remain weak in the next 12 to 18 months.

To focus on project construction and land destocking, the Company continued to slow down the pace of land acquisition in 2024. The Company has been actively seeking land buyers for destocking. Its area of new construction starts dropped from 0.9 million sqm at end-2023 to 0.7 million sqm at end-2025Q1. The Company’s land reserves decreased from 0.5 million sqm to 0.3 million sqm over the same period. 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. Furthermore, the Company has certain capital expenditure pressure for the projects under construction. As of 31 March 2025, the Company had 17 property projects under construction with an estimated uninvested amount of RMB21.8 billion.

Rapid expansion of the **commodity trading business with concentration risks**

Lushang Group has participated in the commodity trading business since 2022, mainly involving the trading of non-ferrous metals. The commodity trade business has expanded rapidly since its establishment, with revenue generated from the commodity trading business increasing from RMB13.5 billion in 2023 to RMB17.9 billion in 2024. However, the business contributes less to the Company's profit as it is operated under a demand-driven model. In addition, the Company faces significant concentration risks, with its top five suppliers and customers accounting for 66.6% and 75.0% of its business in 2024, respectively. As commodity trading is a cyclical industry, the business is susceptible to volatility of metal prices and global economic conditions.

Financial Profile

Increasing revenue with weak profitability

Benefited from ongoing growth in the commodity trading business, Lushang Group's total revenue increased from RMB46.3 billion in 2023 to RMB47.1 billion in 2024. The commodity trading business became the largest income contributor, accounting for 37.9% of total revenue, followed by the retail business (30.2%), the property business (16.5%), the pharmaceutical (7.2%), and others (8.2%). The profit was mainly contributed from the pharmaceutical business, with the overall gross profit margin decreasing from 20.0% in 2023 to 17.7% in 2024.

Lushang Group's profitability remains weak, as reflected by the weak return on assets and EBIT margin, mainly driven by the low gross profit margin of the commodity trading business (0.3%), and the decline in profit margin of the property and retail business. The profit margin of the property business declined to 6.4% in 2024 from 9.8% in 2023, mainly due to the real estate headwinds. The profit margin of retail business dropped from 33.7% in 2023 to 30.6% in 2024 due to fierce market competition and macroeconomic fluctuations. Nevertheless, the pharmaceutical business maintained a relatively high profit margin of 58.6% in 2024. The Company's period expense ratio (including management fee, marketing fee, research and development cost, and finance cost) also further declined from 17.7% in 2023 to 16.0% in 2024, indicating more efficient cost management. The Company's EBIT margin and return on assets remained low at 3.0% and 1.1% in 2024, respectively.

Overall, considering Lushang Group's diversified business portfolio and continuous expansion from the commodity trading sector, its income would continue to increase over the next 12 to 18 months. However, the Company's profitability is expected to remain relatively weak due to the business nature of commodity trading and the challenges in the retail and property businesses.

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. As of 31 March 2025, its adjusted total debt (including perpetual debts) amounted to RMB52.6 billion, with a total capitalization ratio of 71.7%. In addition, Lushang Group's debt servicing capability remained relatively weak; its total debt/EBITDA ratio slightly deteriorated from 16.5x in 2023 to 16.9x in 2024, but the EBITDA/total interest ratio slightly increased from 1.2x to 1.3x over the same period. Its cash flow-to-debt coverage capability also remains weak, with funds from operations ("FFO") of RMB2.0 billion in 2024, accounting for 4.1% of total debt at end-2024. 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 partially mitigated by good access to capital

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.

Lushang Group's liquidity situation could be partially mitigated by its good access to multiple financing channels. The Company has maintained good relationships with large financial institutions. As of 31 March 2025, it obtained total credit facilities of RMB49.5 billion with an unused amount of RMB24.0 billion. Through holding three listed subsidiaries, the Company also has direct access to equity financing channels. The Company can pledge its equity in listed subsidiaries when necessary to provide liquidity cushions. As of 31 March 2025, the Company directly held unpledged equity of about RMB3.6 billion. Moreover, the Company also has good access to both onshore and offshore capital markets. From January 2024 to June 2025, the Company and its subsidiaries raised RMB14.7 billion through the onshore market, as well as USD55.0 million through the offshore market.

External Support

Moderate likelihood of support from the Shandong Provincial Government

We expect Lushang Group to have a moderate likelihood of receiving support from the local government, when necessary, which is based on the Company's (1) 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.

As an important strategic investment and financing, industrial integration, and venture capital investment platform under Shandong SASAC, Lushang Group is primarily engaged in the retail business, which has made great social and economic contributions to the region. However, we assess the Company's financial impact as weak because we believe it accounts for only a small fraction of the total assets of state-owned enterprises controlled by Shandong SASAC.

The Company is commissioned by the local government to play an important role in the strategic planning and operation of many major industrial transformation projects and public projects, such as the integration of provincial cultural tourism resources, and the establishment and operation of educational institutions in Shandong Province.

The local government has provided ongoing support to Lushang Group in the form of capital injection and financial subsidy. The local government provided government subsidies of RMB302.3 million, and injected cash of RMB220.0 million into the Company from 2022 to 2024.

Overall, given Lushang Group's strategic importance to the Shandong Provincial Government, we believe its shareholders will continue to support the Company in the form of government subsidies, capital injections, or asset injections.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge, and other environmental matters issued by the national governmental authorities. Lushang Group assumes environmental risks for its construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

Lushang Group is also exposed to social risks. As a leading enterprise in Shandong, Lushang Group's retail and health services entail strong social responsibilities—including product safety, data privacy, and community well-being. Its social license to operate depends on fair labor practices, employee welfare, service quality, and local economic contributions. Shifting consumer preferences, demographic changes, and public health trends directly affect both demand and public perception.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, 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 General Corporate (April 2019).

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